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# **China Report**

**ECONOMIC AFFAIRS**



**FOREIGN BROADCAST INFORMATION SERVICE**

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16 October 1984

## CHINA REPORT

### ECONOMIC AFFAIRS

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## ECONOMIC DEVELOPMENT ZONES

### BRIEFS

**IMPORTS TO QINGDAO**—Qingdao City is stressing the use of foreign capital and the importation of technology. At present, the upper levels have approved 146 items to be imported. Recently, a transaction has been concluded on 28 items and contracts have been signed with foreign merchants. The production equipment imported are 135 automatic cameras, knitting equipment and collators for printing and dyeing, high-pressure blowers for electric refrigerators, (?cold-adhered chemical [leng-zhan hua-xue 0397 4724 0553 1331]) shoes, children's nutritious food, tourist food, etc. At the same time, Qingdao City has sent a study group to Hong Kong and Macao to observe and hold talks concerning the use of foreign capital and the importation of technical items. A delegation was sent to Japan and agreement concerning the establishment of an International Leasing Corporation Limited was signed officially, and talks were held on the international leasing business under joint ventures. [Text] [Guangzhou YANGCHENG WANBAO in Chinese 1 Jun 84 p 2] 12726

**IMPORTS TO ZHANJIANG ACTIVE**—Ever since Zhanjiang City was listed as a city open to foreigners, foreign economic activities have taken on a new aspect. Traveling traders from Japan, France, Australia, Italy, Singapore, New Zealand, etc. and Hong Kong and Macao Prefecture and many overseas Chinese have come in succession and have held talks on investment items. Until the end of last May, 20 joint-economic and technological items have been signed with traveling traders from foreign nations and Hong Kong and Macao. Among the items, 18 have been approved, importing over U.S.\$10 million of foreign capital. Talks are being held on 40 items, and the total amount of the investment reaches a few hundred million U.S. dollars. Items involved in the relatively big projects are the development project on the inland oil of Leizhou Peninsula, the development project of the Zhanjiang sea reclamation and the setting up of oil refinery mills, white cement mills, etc. Zhanjiang City has drawn a rectangular area between Donghai Island and Xiashan and Chikan, and two respective economic development zones will be set up. The city government has established a group under the command of the mayor and formed by professionals to examine and approve of imported items. Procedures will be simplified and importation will be speeded up. [Text] [Guangzhou YANCHENG WANBAO in Chinese 8 Jun 84 p 2] 12726

CSO: 4006/685

## ECONOMIC PLANNING

### XUE MUQIAO URGES REFORM OF PLANNED MANAGEMENT

HK040613 Beijing JINGJI RIBAO in Chinese 16 Aug 84 p 4

["Excerpts of a speech by Xue Muqiao [5641 2550 2890] at the symposium on reform of the planned management system: 'Keep Abreast of the New Situation, Improve the Planned Management System'"--date not given--passages within slant-lines published in boldface]

[Text] /The reform of the planned management system is the core of the reform of the entire economic management system. It should promote and not obstruct the reform of the economic management system. In a wider sense, it should promote and not obstruct the development of the productive forces./ Since the 3d Plenary Session of the 11th CPC Central Committee, we have proceeded with respecting and extending the decisionmaking right of the production teams, implemented various forms of the contracted responsibility system with payment linked to output, and blazed a new trail from the lower levels in reforming the agricultural planning system and developing the rural economy. While I was conducting a survey in my hometown, Wuxi, 5 years ago, a production team leader told me: There is only one production team leader in Wuxi County, that is, the county party secretary, because he alone has the final say. When I inquired of the county party secretary about the matter, he said: I have only half the power of a production team leader, the remaining power is exercised by the provincial CPC committee. It is quite obvious that such a highly centralized planned management system is now suited to the development level of China's agricultural productive forces. Since the 3d Plenary Session of the 11th CPC Central Committee, the production teams and peasants have genuinely achieved decisionmaking power. Instead of drawing up plans according to the principle of "taking grain as the key link," they have proceeded from their actual circumstances and implemented the principle of diversified economy, all-round development of agriculture, animal husbandry, fishery, and forestry; and simultaneous development of agriculture, industry, and commerce; thus bringing vitality to the entire rural areas and a scene of prosperity in agricultural production. Viewed from the whole country, we have in recent years increased the output of grain, cotton, edible oil, sugar, meat, poultry, and eggs and the supply in urban markets has been more abundant than in the past. The achievements of reform are universally acknowledged. After breaking through the old planned management system in agriculture, has any confusion occurred? Yes, a little bit. For a year or two, some localities



occupied rice fields and blindly developed tobacco and rapeseed. However, the problem was promptly solved when the state readjusted the price and reduced the price for the surplus purchases. Generally speaking, the development of China's agricultural (including animal husbandry, fishery, forestry, and so on) production at present suits the needs of the state and markets and is developing proportionally at a high speed. The situation is far better than in the period of monopolized and assigned purchases by the state on fixed quotas. The difficulty in buying and selling in some localities is not because our production does not suit the market needs, still less is it a problem related to the reform of agricultural planning. In addition to the commodities purchased and sold at a loss, it is because we lagged behind in the reform of the commodity circulation system and commercial work, which affected commodity circulation. High speed, better results, and proportional development are the fundamental requirements of planned management. The development of the rural economy in the last 5 years shows that the current planned management system for the rural economy in China is much better than in the past.

/As the urban economy is more complicated than the rural economy, the reform of the planned management system in cities cannot be as simple as that in the rural areas. However, there is a common point, that is, to "simplify administration and delegate power" and to emancipate the productive forces./ It is necessary to conduct major reforms in the planned management system, to give full play to the role of key cities, to delegate more decisionmaking power to enterprises and workers, and to separate government administration from enterprise management in a step by step manner. In recent years, we have conducted some reform experiments in the urban economy at selected points and have delegated some financial decisionmaking power to the lower levels, but the enterprises cannot yet manage to assume sole responsibility for their profits and losses after paying taxes. Moreover, there have been no changes by and large in the personnel and labor management system or only minor changes (some changes were made by enterprises in making breakthroughs instead of following the old principle, some power was recalled shortly after being delegated) in the decisionmaking power over materials (including supply, production, and marketing), thus the enthusiasm of enterprises and workers is not fully aroused. In May this year, Premier Zhao Ziyang pointed out in this government work report delivered at the Second Session of the Sixth NPC: Commencing this year, we should quicken the pace of urban economic reform. As a result, the contradiction between urban economic reform and the old economic management system, particularly the planned management system will be more acute. At present, our planned management system hampers the initiative of the lower levels and also cannot ensure the proportional development of the national economy. Blindness still exists in long-term overstocking of some products and lack of stock of other products. Can we change our work method so as to protect the initiative of the lower levels and also ensure the proportional and planned development of the national economy? I think we will certainly be able to find such a method. During the early 1950s, we enforced planned guidance over the privately-owned industrial and commercial enterprises, did not assign planned quotas or mandatory planning, but used flexible price policies and the method of processing and ordering goods and selling goods on a commissioned basis to bring them into

line with the state plan, thus the market was brisk and the products sold well. Why is it that we could succeed in implementing the method in the privately-owned industrial and commercial enterprises, but failed in the state-owned economy and the collective economy.

/Although the management of the state-owned and collective economy is different from that of the privately-owned industrial and commercial enterprises, they have a common point, that is, both should be good at utilizing economic levers./ According to Comrade Sun Yefang's theory, we should lead an ox by the halter and not by binding its legs and carrying it. The halter is the lever, particularly the law of value which was frequently raised by Comrade Sun Yefang. During the decade-long internal turmoil, prices were frozen and the prices of various products deviated from their value, which led to grave consequences. It was no easy job to readjust them in a single attempt. Under such circumstances, we could only enforce mandatory planning on many occasions instead of guidance planning. This was because guidance planning utilized the economic lever to stimulate the vitality within enterprises, put pressure on the poorly-managed enterprises, and lead the enterprises to carry out their economic activities according to the state plan. Therefore, in order to thoroughly reform the system of planned management, it is necessary to start with utilizing the economic lever and particularly the readjustment of prices. From now on we should continue to maintain the necessary mandatory planning and utilize the economic lever in mandatory planning. At present, many comrades turn pale at the mention of price readjustment. This is because the people of the whole country are afraid of price rises. Therefore, we must be very careful in readjusting the prices. In fact, the price readjustment of many products will not necessarily affect the stable prices. Provided we can do a good job in such work, people will not object to the price readjustment. Did we not readjust to a large extent the price of cotton cloth and chemical fibers in 1983? Due to price reduction, the overstocked chemical fibers sold well. Although the price of cotton cloth was raised, the price of all textile goods did not rise, and instead of limiting production, we increased the production of chemical fibers. As the people have more varieties in clothing, they are in favor of this move.

/In order to reform the system of planned management, another vital problem to be solved is the removal of barriers created between different regions and departments./ The national economy was originally an inter-related entity but, particularly along with the development of mass production, the division of labor and cooperation between different regions, between different departments, and between different regions and departments is becoming more important. However, our current plans are still being worked out, implemented, and examined according to different regions and departments and each region and department does things in its own way in order to accomplish the planning and financial tasks, which causes many difficulties in the division of work and in cooperation. In recent years, the central authorities have put forward the principle of establishing a criss-cross network of economic units based on large- and medium-sized cities, breaking through the barriers between different regions and departments, and developing cooperation and coordination between the regions and between different regions and departments. However,



there still exist formidable obstacles. Viewed from the angle of planning work, our planning departments have drawn up plans according to different regions and departments, but have not or have seldom made coordination and given guidance planning to cooperation and alliance. With the implementation of the principle of "simplifying administration and delegating power" and the further extension of decisionmaking power to localities and enterprises, the proportion of production and construction not included in the planning will become greater. Therefore, planning commissions at all levels should appropriately guide, coordinate, and exercise necessary supervision over such production and construction and regard this as an important aspect of planned management. However, we have by and large not adopted such a planned management method since we lacked an economic, administrative, and legal management method [word indistinct] production and construction not included in planning. As no one held responsibility for such production and construction, it led to blind production and duplicate construction and caused appalling waste. Our planned management system should be suited to the new situation. We should create a new planned management system and a method for planned guidance and set up a system of coordination at each level as quickly as possible so as to prevent blindness and enhance planning in this respect. The 12th CPC National Congress has put forward the grand objective of quadrupling the total output value of industry and agriculture, but it obviously will not work if each locality and department fails to establish mutual contacts or to conduct in-depth investigation and study and scientific forecasting, but each carries out its own plan in its own way. Proceeding from the general objective and task put forward by the 12th CPC National Congress, it is necessary for the State Planning Commission to help each department and locality work out the quadrupling plans in line with their concrete conditions. Meanwhile, it should also guide all the localities in effectively giving full play to their superiority and in carrying out regional cooperation, and in turning the closed-type plans into open ones.

/The planned management methods of all professional departments should also be reformed./ In the past, all [words indistinct] centralized management instead of centralized management by specialized departments. Take for example the electronic industry, which is a matter recently of concern to all--the Ministry of Electronic Industry could only work out the plans for the development of its own ministry. It did not and could not manage the development plans of other ministries and certain localities. As a result, when we stressed the development of electronic industry, a number of ministries and particularly many localities started construction and dispersed the limited funds and technical forces in duplicating many processing and assembling projects and products, whereas the technical knowledge and capital intensive projects and basic facilities which needed the mustered funds could not be constructed as quickly as possible. Consequently, although many departments were engaged in the construction, no major achievements were attained. Under the current planned management system, all localities and departments are applying for investment from the state and loans from the banks. Should the State Planning Commission distribute the funds to each locality and department and let them develop projects by themselves or should it carry out major construction projects in the selected bases and key factories which have a solid foundation?

In my opinion, we can thoroughly settle the problem only by combining unified planning with the construction of key projects. From a long term point of view, all professional departments should turn decentralized management into unified planning and centralized management. They should not only pay attention to the enterprises directly under their authorities, but should also break the bonds of departmental and regional ownership and exercise unified planning and management in the whole trade. Only by equally treating the enterprises of all departments and localities without discrimination can we genuinely exercise unified management. With regard to production and management of enterprises, we should fully respect and should not interfere in their decisionmaking power.

Since the 3d Plenary Session of the 11th CPC Central Committee, tremendous changes have taken place in the economic situation in China and still greater changes will take place in the urban economic setup in future. Should the planning departments make the planned management system suit such changes and use the new planned management methods to promote economic development and also strengthen planned management over macroeconomy in the course of development, or should they lag behind the situation and make no achievements at all under the tremendous changes in the national economy? I think our comrades are all willing to take the former path. Naturally, it is no easy job to extensively reform the planned management system. In order to accomplish the reform in this respect, we must pool the wisdom and efforts of everyone, conduct in-depth discussions, and adopt cautious measures.

CSO: 4006/1

## ECONOMIC PLANNING

### LU DONG URGES ENTERPRISES TO UPGRADE PRODUCTS

OW300953 Beijing XINHUA in English 0637 GMT 30 Sep 84

[Text] Beijing, 30 Sep (XINHUA)--"We will formulate a series of policies to encourage enterprises to develop new products and improve quality," said Lu Dong, minister in charge of the State Economic Commission, in an article carried in the ECONOMIC DAILY.

These policies will apply to funds, taxation, credit and loans, pricing, foreign exchange, awards and other aspects. For instance, the enterprises will enjoy appropriate preferential treatment on taxation and pricing for new products; they will have priority in loan and foreign exchange allotments for developing new products and improving quality; and personnel who have made contributions to upgrading products will be awarded.

After reviewing the excellent situation in China's economic development, he said, the seller's market will be changed to a buyer's market for many industrial products, and consumer goods in particular. Therefore, all enterprises will face a severe test: whoever can provide better products will dominate the market.

Now many trades, localities and enterprises have made plans and arrangements for developing new products and upgrading old ones. However, some hesitate and do not know what to do when facing this situation.

A far-sighted factory leadership should first of all correctly decide the orientation of the products and intensify the development of new products in accordance with the needs of markets at home and abroad. Then, efforts should be made to carry out technical transformation of the enterprise in line with the requirements of the new products. Technical transformation of existing enterprises or their reconstruction and expansion are the most economical ways to achieve more output in production with less input, the minister pointed out.

"We must absorb the advanced technology of industrialized countries of the late 1970s and early 1980s through co-production or assembling with parts supplied by overseas partners," he continued. "Some key technology, subsidiary equipment or materials which are not available domestically should be imported. And the skills of engineers, technicians and workers should be brought into full play to digest the imported technology. Thus the upgrading of products and the increase of economic returns can be stepped up."

Efforts should also be made to improve quality control, he stressed. This should be implemented at all stages, from designing, manufacturing and testing to after-sales services.

## ECONOMIC PLANNING

### TECHNOLOGICAL GAINS POINT WAY TO YEAR 2000

OW251646 Beijing XINHUA in English 1449 GMT 25 Sep 84

["PRC: Technological Policies Point Way to Year 2000"--XINHUA headline]

[Text] Beijing, 25 Sep (XINHUA)--Studies for technological updating of 13 [words indistinct] in China have been completed.

Cooperative work by specialists began in early 1983 to devise guidelines aimed at bringing China by the turn of the century to levels of developed countries in the 1970s and 1980s. In some areas of the national economy, such as the textiles, computers, optical fiber communications, China is expected to keep pace with developed countries as closely as possible in the coming years.

The principle that "economic construction must rely on science and technology which in turn must be oriented toward economic construction" was the focus for the several thousand technological, economic and management specialists who participated in the appraisal seminars.

Several thousand others were involved in some aspects of the research project. The State Council, the State Science and Technology Commission, the Planning and Economic Commissions, in cooperation with other departments, organized this project, the largest of its kind since the founding of the People's Republic.

Studies covered, among others, energy, communications, housing, machine building, new materials, consumer goods, computers, integrated circuits, environmental protection and urban construction.

These policies will be submitted to the State Council for approval.

At present, an estimated 26 percent of annual national economic growth is attributable to scientific and technological progress, but the figure is still far below that of developed countries.

The technological policies deal with technical structure, direction, goals and levels of technological development and concrete ways of serving China's plan to quadruple its 1980 industrial and agricultural output by 2000.

Energy, communications and transport are focal points, especially primary energy sources. Coal, which makes up 96 percent of all available reserves of combustible minerals in China, will remain the main focus for the foreseeable future.



Research on energy technologies will center on conversion of coal into other forms of energy and its multiple-use. By 2000, comprehensive mechanization is expected to spread to extraction and tunnelling in all large coal mines. Hydropower is also expected to increase considerably.

Railways will continue as the main method for moving passengers and freight over long distances, while road, waterway and air transportation will be expanded considerably in order to improve the transportation services. Express ways will be built, too. Electric and internal combustion traction will replace steam which is now still widely used.

The new policy for the computer industry calls for readjusting the product mix, with future emphasis on wide use of microcomputers. A research program will be carried out on several levels: emphasis in the near future on the fourth generation of computers while the long-term objective will be a new generation of computer systems meeting the country's needs in the latter part of the 1990's. The computer industry, after more than 20 years of growth, now employs 100,000 people in research, production and application.

Technological development in the near future will concentrate on updating basic technologies and processes, elements and components, especially hydraulic and pneumatic parts, ball bearings and gears, sealing parts, fasteners and integrated circuits.

The new policies assume that for some time China's technological advance will [words indistinct] learning and assimilating present advanced world achievements.

In the past 35 years China has formed a fairly complete system of science and technology involving more than six million personnel. China has proved itself capable of completing major scientific projects.

While independent domestic research will be intensified, planned import of advanced technologies will be an important way to narrow the gap between China and developed countries rapidly. Top scientists and technologists will be brought together to lead the work of introducing technologies from abroad and adapting (to them) Chinese conditions. Sending students and scholars abroad for advanced studies will be continued.

CSO: 4020/7



## ECONOMIC PLANNING

### ECONOMIC JOURNAL STRESSES USING LAW OF VALUE

OW281430 Beijing XINHUA in English 1222 GMT 28 Sep 84

[Text] Beijing, 28 Sep (XINHUA)--The ECONOMIC DAILY today calls for using the law of value conscientiously to develop China's planned economy.

The paper says in a front page editorial that China's socialist planned economy should be a planned commodity economy, because commodity production and exchange are now widespread.

"Now that commodities, currency and price are indispensable in all aspects of economic life, the law of value is bound to play an extensive role in production, circulation and distribution," it says.

The principle of planned economy must be upheld in a socialist country like China. However, the paper adds, for a long time in the past, planning was stressed to the neglect of the law of value, resulting in the excessive use of directives and administrative methods to guide China's economic development.

This way of doing things, the editorial says, "bound the enterprises hand and foot, depriving them of independence in management."

The editorial quotes Premier Zhao Ziyang as having said that sufficient initiative given to enterprises will constitute a salient feature of the Chinese-style socialism the country is striving to build.

The paper says: "Only when enterprises are given sufficient decision-making power will it be possible for them to truly act in accordance with the law of value and improve their economic performance."

CSO: 4020/7

## AGGREGATE ECONOMIC DATA

### COUNTRY'S JAN-JUN RURAL INDUSTRIAL PRODUCTION UP

OW101306 Beijing XINHUA in English 1301 GMT 10 Sep 84

[Text] Beijing, 10 Sep (XINHUA)--China's rural industries turned out 402. billion yuan-worth of products (about 18.2 billion U.S. dollars) in the first half of this year, according to the Ministry of Agriculture, Animal Husbandry and Fisheries.

The figure, based on results from 28 provinces, municipalities and autonomous regions, excluding Tibet, is 7.3 billion yuan ( [figure indistinct] percent) more than the same period of 1983.

China has 740,000 collective rural industrial enterprises, employing 32 million peasants. They cover machinery, coal mining, textiles, papermaking, building materials, food and fodder processing, chemical and other industries.

In 1983, rural factories turned out 75.7 billion yuan-worth of products, accounting for 12 percent of the national total. The outputs of coal, cement, phosphate fertilizer and pesticides made up 14 to 63 percent in the national totals.

Other rural enterprises in agriculture, transportation and building construction have also showed remarkable growth this year, as the Chinese Communist Party Central Committee issued two circulars emphasizing the development of rural enterprises in invigorating the rural economy.

CSO: 4020/2

## ECONOMIC MANAGEMENT

### PROVINCIAL, CITY ECONOMIC REFORMS REVIEWED

HK060443 Beijing JINGJI GUANLI in Chinese No 7, 5 Jul 84 pp 10-16

["A Collection of Measures Adopted by Some of the Provinces and Cities for Economic System Reform (1)"]

[Text] Editor's note: At present, under the guidance and promotion of the CPC Central Committee and the State Council, reform of the economic system is progressing in a down-to-earth manner in the various localities. Following is a collection of measures adopted by some of the provinces and cities for reform of the economic system, for the reference of comrades in various localities. [End editor's note]

#### Formulation in Fujian Province of 10 Reform Measures To Enliven the Economy

For the purpose of realizing the objective of increasing, at the same pace, production value and payment of taxes and profits to the state on the part of the industrial and commercial enterprises in the whole province this year, Fujian Province, after investigating, studying, and listening to the views of the various departments and localities, has formulated the following 10 reform measures to enliven the economy:

--Concentrating strength on tightly grasping the major trades and industries, major enterprises, and major products. Firmly grasping the major industries and trades such as food, textiles, electronics, and electrical appliances for household use and some 125 major enterprises, and striving hard to achieve the objective that the gross output value of these four major industries and trades will amount to 50 percent of the gross output value of industry of the province, that is to say, an increase of 20 percent over the preceding year.

--Breaking the demarcation limits of the ownership system of departments and localities, promoting reorganization and combination, and expanding the production of well-known, good-quality, and marketable goods. Arranging 13 products including loading machines, fork lifts, television sets, recorders and electronic computers to form the dragon heads for formation of 13 joint production lines and speedily enlarging their production capacity.

--Striving hard to solve the problem of the shortage of energy supply and raw materials. Efforts will be made to tightly grasp the practice of economy. In addition to the 10 kinds of materials stipulated by the state for which bonuses will be granted for using them economically, 6 more kinds are to be added, these including pig iron, steel products, soda ash, caustic soda, sulphuric acid and grain (including grain for wine-making and for medicinal uses).

--Organizing rational transportation and easing the tense situation in communication and transport; strengthening overland transportation and greatly developing water transport. It is anticipated that this year 15 percent of the total value of goods imported into the province will be carried by water transport.

--Strengthening industrial and commercial cooperation and enlivening the circulation lanes; adopting diversified purchasing and marketing forms in support of production of industrial products in the localities, such as unified purchase, planned purchase, placing commercial priority orders, free and selective purchases, self-marketing by the enterprises, setting up commercial marketing agencies, industrial and commercial joint operation and joint sales, and so on. At the same time, trading centers and wholesale markets are organized for agricultural and sideline special and native products, various kinds of specialized companies are formed, and the counties are encouraged to go into the cities to open stores to enrich the supply of commodities in the cities.

--Adopting diversified forms to increase the export of industrial and agricultural products.

--Enforcing the provincial governor responsibility system and launching a determined campaign to turn deficits around and increase profits. The target this year is to cut down deficits amounting to 40.56 million yuan. The responsible persons of enterprises subordinate to the province are the department or bureau heads in charge; those of enterprises subordinate to the districts, cities, and counties are specially designated specialized personnel, or heads of cities or counties; while those of the enterprises are plant heads or managers. If, at the expiry of the designated period, the job of making up deficits is not accomplished, the plant head or manager should automatically resign or will be relieved of office on the spot.

--Encouraging, by means of bonuses and concessions in price fixing, taxation and loans, new creations, the creation of superior products, improvement of quality of products and increases in product variety. In nine cities, including Fuzhou and Xiamen, new products development funds are being set up for the development of new products and the promotion of new technology. Loans at low interest rates are offered. The prices of good-quality products are permitted to fluctuate to a certain extent.

—Devolving the power to examine and approve projects, trying out the system of interest-free loans or loans whose interest payments are subsidized, and speeding up the steps in the technical transformation of enterprises. The Xiamen special district has put into effect a system of special handling of special tasks. It is empowered to examine and approve, within the sphere of the controlled targets, individual investment projects in the introduction of technology and technical transformation whose costs do not exceed 10 million yuan each. Other districts, cities and, provincial departments-in-charge are empowered to examine and approve projects costing below 1 million yuan each. This year, some of the projects have tried out the system of interest-subsidy loans with the province subsidizing the interest payment.

—Tightly grasping enterprise consolidation and system reform, and speeding up the release of the "tightened hold" over the decisionmaking power of the enterprises; reforming the system of control of cadres of the enterprises and the system of advertising for workers and unifying enterprise management and control with cadre control. Those holding the top posts of enterprises are appointed by upper-level organs while those in secondary posts are nominated by top post holders for approval and appointment by the upper-level organs. Appointments and dismissals of the remaining cadres are made by the enterprises themselves. Enterprises have the power to follow the labor plan to advertise for and appoint workers and also to dismiss workers. Bonuses are linked with the economic results. No ceiling is placed on bonus to individuals. The enterprises are allowed to carry out a wage system consisting of both a basic wage element and a variable amount of bonus.

#### **Shaanxi Province Has Boldly Carried out 10 Measures Calling for Ending the "Bondage" of the Enterprises and Giving Them the Decisionmaking Power**

The Shaanxi CPC Committee and Provincial Government, after listening to the outcry demanding relief from their "bondage" on the part of plant heads and managers attending the provincial economic work conference, decided to carry out bold reforms on 10 counts and release the "decisionmaking power" to the enterprises, as follows:

1. Expanding the power of plant heads and managers to appoint or dismiss cadres and to employ persons of talent. In enterprises below the county level, the deputy administrative chief will be nominated by the plant head or manager for screening and appointment by the department-in-charge; medium-grade administrative cadres will be nominated by the plant head or manager and appointed or dismissed by the enterprise. The plant head or manager has the power to appoint specialized cadres and to dismiss personnel who are not equal to their jobs.
2. Dismantling the system of cadres holding permanent tenure. Plant heads and managers have the power, in accordance with the needs of work, to select and appoint cadres from among the workers; in the event that the cadres are found unequal to their jobs they will revert to the rank of workers and shall not retain their cadre privileges.



3. Enterprises which have made profits may enforce the system of retention of profits in excess of the plan. In the case of enterprises which have incurred deficits, they will enforce the system of contracted responsibilities for deficits. No compensation will be given for deficits in excess of plan but the enterprises may retain for their own use any reduction in the budgeted deficit, and need not deliver to the province any of the profits made.

4. The system of linking bonus with taxes and profits is enforced. There is neither any upper ceiling nor any bottom limit fixed. The growth rate of bonuses should not be higher than the growth rate of taxes or profits. The enterprises are permitted to make use of bonus funds to give post allowances and grant floating or temporary promotions and floating or temporary wages.

5. In the event of the enterprises acting in accordance with the state's wishes to make use of self-owned funds to carry out technical transformation, and if the projects involve investments of less than 500,000 yuan each, the enterprises and the departments-in-charge concerned may make their own decision through negotiations.

6. In the case of technical transformation projects the contracted responsibility system shall be enforced and agreements shall be signed. Enterprises which have the requisite technical strength and surplus personnel may take up for themselves the contracts for the technical transformation projects and carry out the system of awards and fines.

7. Enforcement of the system of giving awards to superior-quality products.

8. State-run small-scale industrial enterprises will enforce the system of ownership by the whole people, collective operation, payment of taxes to the state and being responsible for profits or losses. Small commercial enterprises like hotels, barber shops, cleansing and dyeing establishments and restaurants may adopt the system of contracting for operations after payment of taxes and being responsible for profits or losses.

9. Regarding commodities planned for internal sales, enterprises may market the products themselves according to a fixed ratio; in the case of products the production of which is increased by the enterprises through producing by themselves the needed raw materials and after fulfillment of the state plan, they may be wholly marketed by the enterprises themselves.

10. Plant heads and managers of enterprises which have noticeably improved their economic results will be given due awards while those of units which have not completed their principal economic targets well or have suffered serious losses will be punished.

#### **Beijing Municipality Has Enforced Seven New Bonus and Punishment Measures for Industrial Enterprises**

Beijing Municipality has decided to enforce an economic policy to encourage the advanced and spur on the backward enterprises, thus speeding up their technical advancement and improving their economic results.

The main points of this new economic policy are as follows:

1. Those industrial principal companies (bureaus) which have fulfilled on all sides the 10 economic targets and 10 technical advancement targets designated by the municipal economic committee will be given awards of a profit retention of from 0.5 to 1 million yuan and 2 mini-computers; their leadership personnel, following separate assessment and comparison, will each be given an award of 300 to 500 yuan. Those which have failed to fulfill the state plan will be penalized by reduction of their enterprise profit retention and of the reserve retention for emergency use of their principal companies (bureaus).
2. Fixed amounts of subsidies will be given to cooperation projects on the development of new products and to new technical projects. In the event the projects are not completed on schedule, the subsidies given will have to be fully refunded and, in addition, bank interest rates will have to be paid thereon as a penalty.
3. Awards will be given to enterprises and individuals who have improved the quality of products and created superior-quality products; enterprises which have not fulfilled the quality plan will have their profit retention or percentage distribution of the surplus production deducted.
4. Awards will be given to enterprises which have improved the quality of products and created superior-quality products. The enterprises may retain a portion of any savings from investments. In the event of failure to attain the progress rate stipulated in the plan or to achieve the aims of the plan, the subsidy funds will have to be refunded in full and bank interest rates will have to be paid thereon as a penalty.
5. Strict control will be imposed on enterprises which have shown a high rate of energy consumption. Enterprises assessed as belonging to Grade 1 will enjoy priority in energy supply; those belonging to Grade 3, which have made no improvement even after 6 months consolidation, will be penalized by either having supply reduced, or prices raised, or supply stopped completely.
6. Regarding enterprises found to have failed in the qualifying tests at the scheduled time for the taking over of enterprises, their right to 1 percent in-grade promotion will be temporarily stopped and their target of bonus funds will be reduced by 1 percent. Enterprises which have passed the take-over tests successfully may enforce the bonus system based on the payment of profits and taxes to the state or a system of bonus payment according to the average per-person profit-earning level. In the event that an enterprise, having passed the take-over tests, eventually shows a reduction of its economic results, it may retain its qualification certificate and be subjected to further observation for 6 months, after which, if no improvement is made, its qualification certificate will be cancelled.
7. Concerning enterprises which habitually suffer deficits in operation and are found to have a high consumption rate of raw materials and whose yearly

amount of deficits exceed the total amount of salaries and wages, they will be required to stop production for reorganization and consolidation.

#### Four New Measures for Enterprise Reform Adopted in Guangdong Province

At a recent session of the Guangdong Provincial Economic Work Conference, the provincial vice governor, Li Jianan, representing the provincial government, advocated adoption of four new measures on enterprise reform, as follows:

1. We should learn from and expand the reform experiences in the personnel and labor systems of the Shenzhen Special Economic Zone and the Shekou industrial zone; each and every city and district should grasp several enterprises as trial points.
2. Small state-run industrial enterprises subordinate to counties may carry out the operational measures of being owned by the whole people, operating collectively, paying taxes to the state and being responsible for profits or losses.
3. The system of democratic election of the plant head will be actively promoted. Provided the nominee is not one of the "three categories of people" or of highly questionable character, the choice of the masses must be respected and the upper-level departments in charge and the organization department will make the appointment. The plant head will be permitted to select his assistant for nomination to the higher level for appointment and for recording. The enterprise has the power to decide on the appointment and dismissal of medium-level cadres, on the structural organization of the internal departments of the enterprises, and on the size of the staff. It also has the power of formulating operation and business policies and production, supply and marketing plans, and reforming the systems of labor organization and distribution of income. It may also try out the enforcement of the plant head (manager) responsibility system, at the same time experimenting with the system of appointment by contract of cadres of enterprises, breaking the systems of the "iron rice bowl" and "iron stool," enforcing floating promotions, and providing the employees with the flexibility of moving upward or downward and serving in the capacity of either "cadres" or ordinary "workers."
4. Following the relaxation of control over their operations, small enterprise units will enforce the linking of compensation for labor with the payment to the state of profits and taxes. There will be no top or bottom limits in labor compensation, but increases in salaries, wages, and bonuses cannot exceed the growth rate in labor productivity and in taxes and profits and cannot exceed the wages content in the per-unit cost composition of the products. Concurrently, it is necessary to actively promote the system of floating wages and designate a fixed ration of the salaries, wages, and bonuses as floating remuneration, to be paid out in accordance with the good or bad results of the operations of the enterprise and the degree of contribution made by the individual employee or worker. Furthermore, it is necessary to set up functional remuneration and allowances for the leadership cadres and management personnel of enterprises. This should be closely linked with the appointment and dismissal of cadres.



For the sake of meeting the needs of enterprise reform, the provincial government has advocated that from now on, control over the industries and trades will be strengthened, that the principle of unifying the big and dispersing the small will be followed, that unified planning will be enforced, that products that are definitely competitive in the market and have already formed a definite production capacity will be further improved and the control over them will be unified and strengthened and that, finally and on that basis, new products capable of displaying a mark of superiority will be further developed. Concurrently, technology importation will be speeded up and the technical transformation of major industries and trades and of major products will be tightly grasped. Circulation channels will be smoothed out so as to enliven circulation. It is necessary to solve two more problems, these being: There must be a "voluntary loosening of bondage" and enlivening of the state-run commerce and the supply and marketing cooperatives; the other is that the law of value must be observed and respected; that which needs to be controlled must be so controlled and that which ought to be loosened must be so loosened.

To enable the smooth progress of these reforms, the provincial government has decided on enforcing the responsibility system level by level, signing of "affidavits" level by level, and replacing those personnel who are not interested in the reform or who are unable to work under the new state of affairs.

#### Zhejiang Province Has Enlarged the Five Big Powers of Collective Industrial Enterprises in Cities and Towns

Summarizing the experiences gained in the reform of the Haiyan shirt factory, Zhejiang Province has decided to grant more decisionmaking power to collective industrial enterprises in cities and towns and has thereby provided the lead and guide to reform work in state-run industrial enterprises in the whole province.

For this reason, the Zhejiang Provincial CPC Committee and the Zhejiang Provincial People's Government have promulgated the "Regulations (probationary) Governing Policy Problems of Speeding Up the Economic Development of Collective Industries in Cities and Towns." The regulations contain the following points on expanding the decisionmaking power given to collective industrial enterprises:

1. Production and operation power. Under the logical premise of accepting the guidance of the state plan and observing the relevant legal statutes, the enterprises possess the autonomous power of independently carrying out economic activities. They may, in accordance with the people's needs and market changes, actively arrange for production and operation activities which are diversified in variety, in level, and in channels. They may readjust labor time in accordance with seasonal changes and the volume of business. The enterprises may stage various forms of exhibition and display of products, advertisement and propaganda work, and solicitation of orders from customers. Operation expenses incurred in enlarging business may be incorporated into the production cost of the products but such expenses should not exceed 2 percent

of the total amount of receipts from sales of the products. Under the logical premise of carrying out the price policy of the state and serving the control of commodity prices, enterprises may, following the competitive principle of good prices for good quality, poor prices for poor quality, and small profits but quick turnover, carry out to a certain extent a policy of floating prices and seasonal variation prices.

2. Power of control over cadres. The assistant plant head may be nominated by the plant head for appointment by the department-in-charge; middle-grade cadres are to be appointed or dismissed by the plant head.

3. Power of control over labor. In accordance with production needs, enterprises may formulate worker intake plans and rules for taking on workers for submission to the relevant departments of cities and counties for approval. Upon approval, they may advertise on the spot for staff members and workers. If, in any one year the number of unemployed youths taken on exceeds 1 percent of the total number of staff members and workers, the enterprise is entitled to a reduction by 1.66 percent of income tax. This reduction period will last for 3 years and the amount derived from the tax reductions will be used to develop production. Subject to the approval of the local city or county people's government, an enterprise may employ scientific and technical personnel of the medium-grade or above from the outside. The enterprise has the power to take disciplinary action against, or even dismiss, those staff members and workers found to have violated, despite repeated remonstrations, the rules and regulations of the plant.

4. Power of economic distribution. The small number of enterprises now still operating under the system of the relevant departments-in-charge taking unified responsibility for profits or losses must all change over to the system of themselves being responsible for profits or losses. After payment of taxes and other fees or expenses, the enterprises may decide by themselves on the distribution of the amounts retained by them. The enterprises may try the measure of fund raising for various purposes or projects from among the staff members and workers and the funds thus raised may be repaid by installments from the after-tax profits. At the same time, before installment repayments, the enterprises may take out from the after-tax profits a portion to be paid out as dividends to those sharing in the fund raising. The enterprises have the power, in accordance with their own special features in production and operation and with the principle of distribution according to work and under the logical premises of fixing an advanced norm and the rational distribution of value, to suit measures to their own circumstances and enforce lively and diversified forms of wage payments such as an overall piece-rate system, excess-norm piece rate, payment in combination with marketing, and so forth.

5. Power to reform fringe benefits for labor. Regarding the systems of payment of medical-care expenses for the staff, wages payment during periods of illness or convalescence, retirement funds, and so forth, the enterprises may, in accordance with their own economic conditions and capacity, determine varying standards and spheres of operation. They may also gradually try out the measure of the enterprises contributing a fixed proportion of the total amount of salaries and wages to form a retirement fund for the benefit of



the elderly staff members and workers,—this to be handled on a unified basis by the relevant departments in charge.

#### Decision of Shandong Province To Enforce Six Measures To Unbind and Enliven Collectively-run Enterprises and State-run Small Enterprises

Recently, Shandong Province has decided to adopt a more liberal policy for the purpose of enlivening the collective enterprises subordinate to the counties (cities and districts) and above, street enterprises in cities and towns, and state-run small enterprises.

The principal aspects of the decision are as follows:

1. Subject to permission and within the scope of state laws, state policies, and plans, enterprises may, in accordance with their own interests, make flexible arrangements for production and operation activities. They are encouraged to turn out products which meet market needs and are at the same time profit-making. Regarding small commodities which the market sorely needs but which yield little or no profit to the enterprises, the relevant departments will give appropriate considerations concerning pricing, taxation and supply of raw materials so that the enterprises can make some profits therefrom.
2. Active enforcement of diversified forms of a perfect economic responsibility system which calls for post-tax contracting. The contract period may extend over a number of years.
3. In matters of finance, the enterprises enforce independent business accounting, being themselves responsible for profits or losses. The total amount of salaries, wages, and bonuses of an enterprise is linked with the payment of taxes and profits to the state. Distribution within the enterprise is linked with the labor results of each and every staff member and worker, there being no top ceiling and the lowest limit covering only the very basic living expenses. Various other forms may be enforced such as floating wages, internal contracting, piece-rate wages, and basic wages plus allowance.
4. Developing the system of raising funds for projects from the staff members and workers and letting them become shareholders. In general, share dividends should be higher than the bank interest rates on fixed on savings deposits but the top limit should not exceed 20 percent. In the event the enterprise incurs a deficit, the deficit will be shared jointly. The staff members and workers may voluntarily become shareholders and may also freely retire from being shareholders. State-run small enterprises should deposit in separate accounts those funds contributed by the state and the funds of shares subscribed by the staff members and workers. Use and operation of the funds may be on a unified basis. Retention of profits is made according to the method applicable to collective enterprises.
5. From now on, in taking on workers, the enterprises may uniformly do so by themselves, choosing the best and enforcing the labor-contract system. Workers may resign but retain their status in the plant and engage in

individual business. The enterprises exercise the right of dismissal over the staff members and workers. As for the leadership cadres of enterprises, they should be democratically elected and not appointed by assignment. The salaries, wages and fringe benefits of technical and management personnel taken in by the enterprises from the public at large should be on the high side. Graduates of universities, middle schools, and specialized institutions already in employment in the enterprise or newly assigned by the state may be given a fixed amount of post allowance.

6. Collective enterprises may put aside from among the pre-tax profits 15 to 20 percent of the total amount of salaries and wages as a social insurance sinking fund, to solve the labor welfare problem of the workers' retirement.

#### Heilongjiang Province Has Enforced "Six Changes" Affecting Over 100 Small State-run Enterprises

Regarding the relaxation of control over the operation of small state-run enterprises, the relevant leadership departments of Heilongjiang Province have stipulated the following "six changes":

The method of the state taking care of deficits and losses is changed into the enterprises themselves being responsible for their profits and losses; the system of fixed salaries and wages is changed and a system of floating or flexible salaries and wages is instituted, permitting the remuneration and treatment of the staff of an enterprise to be higher than those of other enterprises of the same category; the method of appointment of cadres is changed into one calling for democratic election and the enterprises are allowed to "form their own management circle"; the system of unified distribution and assignment of employees by the state is changed into one permitting enterprises to freely select by canvassing the best people for appointment; the system requiring the internal organizational structure of an enterprise to be examined and approved by a higher-level department is changed into one providing the enterprise with the power to make its own decisions concerning the structural changes; and a number of the existing regulations related to labor protection and welfare benefits are also changed, permitting enterprises, pursuant to recommendations from the employees representatives' conference, to decide on concrete measures.

At present, the Heilongjiang provincial people's government is summarizing its experiences, preparing to carry out the measure of relaxing control over the enterprises' operation before 1 May, affecting over 600 small-scale state-run enterprises in the whole province each having fixed assets of 1.5 million yuan and profits below 200,000 yuan a year (of this number over 400 units are deficit units). It also plans to liberalize the operation of deficit enterprises each with fixed assets of over 1.5 million yuan but which have not been turning in a satisfactory performance.

#### Wuhan City Has Decided To Reform the Cadre System of 50 Enterprises

Wuhan City has decided to take the breaking up of the two iron rice bowls in the personnel system as a measure of breakthrough in party rectification. It

began first with reforming the cadre system of 50 state-run industrial enterprises which have incurred deficits over a protracted period and have shown poor economic results, firmly carrying out Comrade Yaobang's important directive made in Wuhan on 13 April urging the enterprises to have the "determination to employ a number of young people who are courageous and intelligent," and "to employ one or two helmsmen who are young, strong, and intelligent."

A number of investigation and guidance sub-units working on a reform of the cadre system whose objective is to break the iron rice bowl of the cadres holding permanent tenure, began to adopt three different measures to reform the cadre system in the first batch of 50 backward enterprises. A final date for the completion of this reform is designated. The three measures are as follows:

1. Appointment system. In a planned manner, they formed a 3-tier team, appointing a number of learned, warm-hearted, fearless, bold and intelligent young cadres to take up posts as 1st and 2d helmsmen of the above-mentioned units and thus injecting into the backward enterprises new blood which is capable of creating a new situation.
2. Election system. On the basis of popular nomination and self-nomination and consultation of the opinions of the populace, the enterprise and the upper-level organ screen the nominations and applications of the nominees. After going through an election process which is representative of the views of the electors, the names of the nominees are reported, following the procedure of cadre control, to the upper level, for examination and approval. The assistant plant chiefs and medium-grade cadres are all nominated by the elected plant head. Following the prescribed procedure of screening and approval, appointment is made by the plant chief.
3. A system of inviting applications for jobs. In the case of plant chiefs of small-scale enterprises or the heads of workshops of large- and medium-size enterprises and responsible persons of administrative functional departments, the system of publicly inviting applications is extensively employed. Candidates are recommended by the populace or are self-recommended and must publicly disclose their working and administrative guidelines. Following screening and approval, employment contracts are signed.

Moreover, the cadre reform system of Wuhan City has broken the iron rice bowl comprised of economic compensation in the form of bonus and post allowance given to the leadership of plants. Allowances and bonus are linked with the actual economic results of the enterprise. The rule is that whenever there is an overfulfillment by over 10 percent of the plan for payment of profit to the state and of the plan for turning round deficits, a post allowance of 30 yuan a month is given to the plant head, to be paid out of the enterprise's profit retentions. The allowance is larger if the overfulfillment is greater. Plant heads making outstanding contributions, such as when profit payment to the state and turning round of deficits have exceeded the plans by over 10 percent, are given promotion of one grade of floating salaries, in addition to the post allowance.



In Wuhan City, the cadre system, following reform, has progressed to the stage where the elected cadres and cadres taken in through open examination, just as in the case of appointed cadres, not only enjoy the political treatment accorded to the same grade of cadres, exercise the power of control over cadres of lesser grades, and also receive post allowances, but also possess substantial power in administering the plant and creating a new situation. For example, they have the power to employ specialized cadres by means of public advertisement, the power to lower the salaries and rank of personnel who have performed poorly in their work, the power to dismiss incorrigible staff members and workers, the power to select and appoint cadres from among workers of the enterprise, the power to make use of the bonus funds to grant functional allowances and post allowances and determine floating promotions, and the power to take on employees by contract in compliance with the labor utilization plan.

#### Jiangxi Province Has Decided To Enlarge the Enterprises' Power of Control Over Personnel and Remuneration

Jiangxi Provincial Party Committee and People's Government had recently made certain decisions related to the problems of reform of the personnel and remuneration systems of the enterprises, endeavoring to give the enterprises greater decisionmaking power on these matters.

The decisions stressed expanding the powers of the enterprises over control of the cadres and the taking in of staff members and workers. The nomination of plant heads of managers is first screened by the relevant departments in charge and the appointment is made by a higher-level CPC committee. The deputy head is nominated by the plant head or manager, is approved by the CPC committee of the enterprise and the appointment is reported to the department in charge for record. The plant head or manager decides on the appointment and dismissal of cadres of workshops and sections. The personnel department gives due recognition to the upper-level organs and accords their members with the same treatment as that given to cadres of the same grade. As new cadres approved and appointed by the enterprises themselves, they can be promoted or demoted and if dismissed they do not retain their original job status. The enterprises are entitled to employ technical personnel through advertisement. This decision is enforced first in those enterprises which have gone through reorganizations and consolidation and have been found and accepted as being up to the required standard. Its enforcement will subsequently be gradually extended.

The decision mentioned that, concerning labor employment on the part of the enterprises, excepting certain individual units and a small number of units assigned with special jobs, from now on the enterprises should all enforce the contract-labor system when taking on new workers. In accordance with the plans announced by the state and the relevant regulations of the labor department, the enterprises may publicly advertise for workers and select and employ those who are best suited. In accordance with their production needs, the enterprises may also determine for themselves the use of either seasonal workers or temporary workers. They are also empowered to determine for



themselves the form of salaries and wages. Governed by the logical premises ensuring that the wage content per-unit cost composition of the products is not increased and that the growth rate of the average per-person actual income does not surpass the growth rate of the average per-person payment of taxes or profits to the state, the enterprises have the power to decide on the form of salaries and wages inside the enterprises. They may enforce the system of floating wages, that of functional or post allowance, and that of wages at piece rates. When enforcing the system of wages at piece rates, the enterprises should pay due deference to the standard practices of their own trade. The enterprises can decide for themselves on the system of overtime pay. Regardless of what form of remuneration is adopted by the enterprises, the departments in charge should exercise strict surveillance and supervision over them.

The decision further permits the floating or flexibility of bonus funds. The gross volume of the bonus funds of state-run enterprises should be linked with the economic results of the enterprises, moving up and down correspondingly with the increase or decrease of the payment of taxes and profits to the state. The extent of the upward movement cannot surpass the scale of the increase in the payment of taxes and profits to the state. Internal distribution of income of an enterprise should break the practice of egalitarianism. Disparities in the bonuses among the staff members and workers should be evened up. An individual's income should not have an upper ceiling nor a bottom limit. If the system of wage payment at piece rates is enforced, there will be no payment of overall bonus.

#### Yingkou City Is Trying out 20 Measures of Reform

##### 1. Devolution of the power of control over cadres and of the establishment of organs:

1. The city CPC committee's power of appointment and dismissal of the party and government chiefs and deputy chiefs of the 14 relatively large and major enterprises of the county-grade, of the party and government chiefs of other county-grade enterprises, and of section chiefs of bureaus (companies of the bureau grade) devolves to the economic work department of the municipal CPC committee and the latter department is responsible for examining and approving appointments and dismissals.

2. The power of appointing and dismissing the party and government deputy chiefs of the various economic bureaus (companies of the bureau grade), of the party and government chiefs and vice chiefs of principal branches and other branches, and of section deputy chief of bureau-grade organs (companies of the bureau grade) devolves to the bureaus (companies of bureau grade) to take charge of the examination and approval of appointments and dismissals.

3. The power of appointment and dismissal, originally belonging to the bureau (companies of the bureau grade), of the leadership cadres of sections and workshops of the enterprise units devolves to the enterprises themselves for them to take charge of the appointment and dismissal work.

4. Plant heads and managers of medium-sized and small enterprises which in general possess the necessary conditions may enforce the system of election or that of publicly advertising for job applications in the employment of personnel. The plant heads and managers are permitted to select and nominate their assistants and report to the relevant upper-level departments for screening and approval.

5. The enterprises have the power, in accordance with production needs and operation activities and starting from reality and abiding by the principle of being simple but precise and capable, to set up control organs and equip them with personnel, but need not strictly demand that the upper and lower levels must be equal to each other in all respects. The proportion of the control personnel may be rationally determined by the enterprises themselves, and subjected to their strict control, and there should be no interference from the upper-level departments.

## II. Reform in the Methods of Payment of Salaries, Wages, and Bonuses

1. The system of linking bonuses with taxes and profits is enforced. Under the logical premise of there being no increase in the wages content of the per-unit cost composition of the products and no decrease in the average per-person payment of taxes and profits to the state, the enterprises may, according to the bonus-payment rate fixed by the departments in charge, which is based on the actual amount of payment of profits and taxes to the state and the amount of bonus payments in 1983, set aside the amount of bonus for distribution to the staff. There is no top ceiling nor any fixed base. Bonus limits are abolished and they may float up and down in line with the amounts of tax and profit payments to the state.

2. The enterprises have the power, subject to working within the total amount of their salaries and wages (including bonuses) fixed by and under the control of the state, and based on the concrete conditions, to enforce various remuneration forms such as bonus-granting according to the credit system, floating wages, and surplus wages at piece rates. They may also reduce the amount of bonus paid and use the savings for the purpose of granting flexible or floating promotions to a portion of the staff members and workers or to generally institute wages reforms at their own expense.

3. For state-run small enterprises (that is, enterprises with an original value of fixed assets at below 3 million yuan each, or commercially-run industries with fixed assets valued at below 1.5 million yuan each, and/or enterprises whose realized profits are below 200,000 yuan each), the level of bonus and the method of control over them should follow those stipulated under the regulations of the system of collective ownership. This is to say, paying taxes in the same manner as collective enterprises, subjecting that portion of profits after tax payment to the disposal of the enterprises and, following the practices of collective enterprises, granting bonus payments prior to the payment of taxes.

4. Picking a number of enterprises to serve as test cases for collecting taxes on bonus payments as prescribed under Directive No 55 (1984) of the State Council. Enterprises so selected should have a fairly strong leadership team, engage in normal production, and be operating a relatively perfect internal economic responsibility system.

5. In addition to the state-stipulated bonus granted on savings in consumption of the 10 specially designated raw materials, materials savings bonuses may be granted on a trial basis on certain other raw materials which are precious but are in short supply. Granting of such a bonus may be entered into the production cost.

### III. Adoption of a Liberal Policy on State-run Enterprises and Non Tax-in-lieu-of-Profit Enterprises

1. State-run enterprises subordinate to counties and districts may enforce the system of ownership by the whole people, collective operation, paying taxes to the state, and being responsible for profits and losses and may carry out the relevant regulations applicable to collective enterprises in cities and towns. This is to say, state-run industrial enterprises subordinate to counties and districts, irrespective of whether they are large, medium, or small, are all subject to tax payment based on the 8-grade surplus progressive tax rate (lowest 7 percent; highest 55 percent). The regulation tax is abolished. All the profits remaining after tax payment are subject to the disposal of the enterprises.

2. Subject to the logical premise of enforcing cost control, state-run small enterprises subordinate to cities may also enforce the operation and management methods of collective enterprises.

3. The fixed assets depreciation amounts set aside by state-run small enterprises subordinate to the cities need not be remitted to the state. The whole amount may be retained by the enterprises for use on renovation and transformation.

4. Regarding non tax-in-lieu-of-profit enterprises, varying methods may be adopted according to the varying circumstances. In some cases, the method of being responsible for profits and losses may be adopted. In other cases, following payment of profits to the state and after the Ministry of Finance has fixed the amount of repayment of loans and settled other outstanding problems, the balance may be retained by the enterprise.

5. In the case of deficit enterprises covered by the 1984 plan, the measures adopted are that the enterprises may retain the amount of reduction of the deficit but that there will be no compensation for more or surplus deficits. Deficit enterprises not originally covered by the plan must stop bonus payments and reduce by 15 to 25 percent the payment of the basic pay of the staff members and workers of the enterprise. If, by the end of the year, profits have been made then such reductions may be wholly refunded.

#### IV. Promotion of Progress in Technology and Management.

1. To solve the problem of duplicate taxation, specialized cooperation is promoted. Over and above the originally stipulated basis, the measure of cooperation now extends to the "5 dragons" of washing machines, recorders, aluminum materials, broad-length printed beddings, and chemical fiber and its knitted products. Collection of taxes on the basis of the value-increment tax will be reported to the upper-level tax departments for approval and enforcement.
2. As for spare parts and accessory parts newly introduced into production and for the establishment of cooperative centers, first a contract will be signed. In cases where cooperative prices (not including taxes), are in force, exemption from industrial and commercial tax will be scrutinized by the relevant departments in charge and submitted to the tax departments for approval and enforcement commencing from the date of introduction.
3. In the case of new products, excepting tobacco, wine, and sugar, whose sales profit rate has been assessed and fixed at below 5 percent, they may be exempted from payment of the industrial and commercial tax for a period of 1 to 2 years, subject to the approval of the tax department.
4. The cost of adoption of control technology of minielectronic computers by the enterprises may be entered into the production cost, subject to the provision that the purchase price of computers from outside the province must not exceed 2,000 yuan each and that of computers from inside the province, does not exceed 4,000 yuan each. loans incurred on purchasing the computers may be reimbursed from the increased profits from the old products.
5. The system of bonus for rationalized construction will be enforced. Rationalized construction includes reforms on craftsmanship and technology, development of new products, application of modernized management methods, and so forth. Groups or individuals making the contributions may be granted a fixed amount of bonus proportionate to the created value of the new product. Payment of the bonus funds may be entered as part of the production cost of the enterprise.

CSO: 4006/1



## ECONOMIC MANAGEMENT

### GUANGMING RIBAO ON URBAN-RURAL HARMONY

HK211337 Beijing GUANGMING RIBAO in Chinese 2 Sep 84 p 3

[Article by Cheng Biding [4453 1801 1353]: "Development of Commodity Production Must Follow the Road of 'Harmony Between City and Countryside'"]

[Text] At present, the development of commodity production and exchange in our country has entered a new stage. The development of commodity production in urban and rural areas has not only strengthened the economic link between the urban and rural areas but also facilitated some new changes in the economic relations between the urban and rural areas. The conspicuous feature of these changes lies in the fact that rural areas are more and more dependent on the urban economies while urban areas are playing a more and more important role in guiding the development of the rural economy. This development conforms with what Lenin said: "Urban areas are bound to guide rural areas and rural areas must follow urban areas." ("Collected Works of Lenin," Vol 30, p 225) In order to cater to the demand which the ever developing commodity production in rural areas makes upon the urban economy, urban areas and rural areas must be linked together economically, coordinate with each other, and follow the road of "harmony between town and country."

In his work "Anti-Duhring," Engels put forth the idea of "harmony between town and country." He pointed out: "Only by establishing the harmony between town and country" can we eliminate the disastrous effect of the confrontation between town and country. ("Selected Works of Marx and Engels," Vol 3, p 335) Elaborating this idea of Engels in concrete terms, Stalin pointed out: "Building a socialist economic basis means to integrate agriculture and socialist industry into an integral economy." ("Collected Works of Stalin," Vol 9, p 21) Instead of separately developing along each one's own way, town and country must be closely combined. The development of commodity production in rural areas can further cement the economic link between town and country, enhance the "harmony between town and country" or the integration of town and country, and this will in its turn expedite the disintegration of the self-supporting economy in rural areas and push forward the development of commodity production. Therefore, "harmony between town and country" or the integration of town and country is an important guarantee of the constant development of commodity production and the establishment of a benign cycle of social economy. Since

cities where advanced social productive forces mass dominate rural areas in the economic field, the establishment of "harmony between town and country" should inevitably be initiated by the urban economy.

The basic form of "harmony between town and country" is the combination or integration between town and country in production. Since productive activities are the basis of the social existence and development of mankind and the starting point of social economic activities, only by combining or integrating town and country can we bring about a scientific and rational economic harmony between town and country with great vitality, and thus facilitate a steady development of commodity production in rural areas. On the one hand, the combination or integration of town and country in production means an integration of the mass production of surplus farm and sideline products in rural areas with the timely and effective digestion or absorption of these products by urban areas, which enhances the continuity of commodity production in rural areas. On the other hand, the combination or integration of town and country in production facilitates the division of labor and cooperation between town and country in industrial and sideline production, and thus helps to expand the scope of commodity production in rural areas. To fulfill both targets, urban areas are required to carry out adjustment in productive activities in favor of the development of commodity production in rural areas, in other words, urban areas must not only vigorously develop productive trades or sectors using surplus rural products as raw materials but also export to rural areas in a planned way the products that the rural market can consume, and thus facilitate transfer of production and technology from urban to rural areas. One of the main reasons why commodity production has been developing rapidly in many rural areas in our country is because these areas have practiced the integration of town and country in production and followed the road of "harmony between town and country."

The combination or integration of urban and rural areas in the field of circulation is another important form of "harmony between town and country," because circulation is a special feature of the commodity economy, an important stage in the process of social production, and an inevitable outcome of and necessary condition for the combination or integration of urban and rural areas in production. In the past commodity circulation has developed along different paths in urban and rural areas in our country. The development of commodity circulation in rural areas has even encountered many setbacks. Apparently the separation of urban from rural areas has blocked the outflow of surplus rural products and restricted the development of commodity production. Such a system cannot enliven the urban market and is harmful to the development of urban economy. In order to keep up with the development of commodity production in rural areas, we must change this situation of separation between urban and rural areas, reforming not only the rural but also urban circulation networks. We must link and combine urban and rural areas together and practice a commodity circulation system featuring "harmony between town and country" through various channels.

The combination or integration of urban and rural areas in production and circulation is of particular significance to the development of medium- and

small-sized cities because a large number of medium- and small-sized cities spreading over a vast area in the country have close and extensive economic links with rural areas. In their own development process, these medium- and small-sized cities have laid down their own economic and technological foundation and have become regional economic centers of different types exerting direct economic influence on the rural areas surrounding them. There are some favorable conditions to their integrating with rural areas in production and circulation. Medium- and small-sized cities should give full play to their special characteristics and play a due role in developing commodity production in rural areas.

The system of city administering county which is currently being tried out in our country can also help to achieve the combination or integration of urban and rural areas in production and circulation and provide the conditions for developing commodity production in rural areas and for fulfilling the rural areas' demands upon the urban economy, because one of the conspicuous characteristics of this system is the abolishment of the barriers between town and country. With cities as centers, this system expedites the development of the surrounding rural areas, and enables the urban and rural economy to develop in a unified and harmonious way and thus achieves the combination or integration of urban and rural areas in production and circulation and speeds up economic development in the urban areas and commodity production in the rural areas. The system of cities administering counties has shown its superiority in this aspect in some places where the system has been relatively successfully implemented. Therefore, it is necessary to continue to give full play to the superiority of the system of cities administering counties and blaze a new trail in achieving "harmony between town and country," so as to make contributions to the development of commodity production. This is what our country's new economic situation in the 1980's demands from the reform in the urban economic system.

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JOURNAL ON INTERNAL REFORM OF ENTERPRISES

HK210101 Beijing JINGJI GUANLI in Chinese No 8, 5 Aug 84 pp 25-29

[Article by JINGJI GUANLI editorial department: "A Collection of Measures Adopted by Some Enterprise for Internal Reform (II)"]

[Text] The Chaoyang Heavy Machinery Plant Conducts Courageous Reforms in all Aspects of Work, From Production Management to Life and Ideology

The reform has worked wonders. Through the reform, the Chaoyang heavy machinery plant, situated in the mountains of western Liaoning, has achieved highly convincing changes; this unit, previously notorious for its backwardness throughout the province, is now one of the most economically efficient advanced enterprises in the country, and has been awarded as such by the State Economic Commission; its products are of the highest quality in the country, in high demand both at home and abroad. Profits turned over to the state in the third quarter of last year had increased by over 100 percent over the same period the previous year. In the 12 nationwide sectoral assessments of enterprises, it came in first 8 times. In 1982 and 1983, it came in first every time.

The person who led this plant to carry out such effective reforms was Wang Yachen, the former factory chief and now party secretary. Wang Yachen's reform received the support of Chaoyang Prefectural Commissioner's Office Vice Commissioner Luo Lin and other comrades, along with the departments concerned.

In the reform of the cadre system, both promotion and demotion were made possible. The workshop chief and section chief were both elected democratically, and served for two years. Cadres at section level and above were subject to assessment by the people and tests were organized, with one selection occurring each year. Over the last few years, some 40-odd cadres who showed the wrong spirit, did not work hard enough, or failed to achieve their asks were relieved of their posts in this way; at the same time, 57 courageous, innovative cadres were promoted.

The distribution system was reformed. Production workers had a system of progressive piecework wages, most cadres had a floating wage system, and



Mid-level and higher cadres had a salary system. Those staff and workers who had made outstanding contributions were awarded with medals and promotion to higher wage grades; while the plant also set up special "reform rewards" to encourage those reformers who had made contributions. Those who broke the rules and regulations of the factory and failed to reform through education had their credentials removed. Over the last 3 years, 11 such people have been expelled in this way.

Work hours were reformed. With those types of work which were sometimes busy and sometimes not, like heat treatment, tempering, and iron processing, the workers were put under a flexitime system. When things were busy they would work very hard, while during slack periods they would return home, so that they did not have to hang around at the plant doing nothing. This reform greatly improved productivity, cut costs, saved energy resources, and cut down on overtime expenses.

The public health system was reformed. An average of 40 yuan per person was reserved for medical expenses, 20 yuan of which was given out to each person. This was used for cash payments by workers if they went to see the doctor, for which they would pay half; if they did not have to see a doctor they could keep it for themselves. In cases of serious or long-term illnesses, workers were reimbursed for what they spent. The experiment caused the yearly payment of 30,000 yuan in medical expenses to drop to around 20,000 yuan.

Staff and workers took out shares in the plant. From last April, a pilot scheme was set up in which staff and workers invested in shares, which both increased production funds, and the feeling among staff and workers of being the masters of the factory, and achieved fine results. By April of this year, those staff and workers with shares in the plant were awarded dividends of 17.9 yuan per 100 yuan.

Under the rules of the "program for staff and worker shares" passed by the factory, under the principle of giving consideration to the interests of both the state, the enterprise, and the workers, the staff and workers of the plant could voluntarily invest in the factory, the money paid for the shares being linked to profits, to be made good each year. Each share was worth 50 yuan, and no member of staff or worker could own more than 4 shares. The total number of shareholders in the factory numbered 1,653, amounting to 41 percent of the entire work force, and an investment of 229,000 yuan. All of this money was used for improving production conditions, adding to mechanical equipment, and thereby expanding the plant's production capacity. Calculated according to the factory's effective work hours, per hour output value, and profit rate for that year, this amount of share money created a total of 220,000 yuan of profit. The profits realized by the whole factory in 1983 increased 69 percent over 1982.

Recently, at the end of the investment year, based on the profit rate handed over to the higher authorities by the factory (17.9 percent), the factory drew 40,000 yuan, which was divided up among the staff and workers according

to shares, such that the interest rate on the shares was equivalent to 3 times bank interest rate. Shareholding staff and workers received 17.9 yuan for each 100 yuan of investment. Many workers, after receiving the interest on their shares, immediately continued with their original share investment.

In order to take this work further, the Chaoyang heavy machinery plant has recently improved its program, deciding to develop this method to encompass staff and worker participation in running the factory. In order to attract more share investment by lower paid workers, the share price has been lowered from 50 yuan to 20 yuan, with the maximum possible shares limited to 20 persons (400 yuan). The party secretary, Wang Yachen, told reporters that if marked results were achieved next year, these limits on shares would be removed altogether.

#### The Jinan No 6 Wireless Factory Introduces a Contract Responsibility System for New Products

Shandong's Jinan No 6 Wireless Factory has introduced a contract responsibility system for the creation of new products by its engineers and technicians, mobilizing the initiative of its technicians, and promoting the development of new technology and the manufacture of new products. As production was thus enlivened, economic results have improved year by year. Last year, seven new products went into production, more than doubling sales over the previous year, and increasing profits 2.6 times.

Under this contract responsibility system, it is stipulated that each technician must create one new product each year. If this product is produced on schedule, the technician will enjoy basic wages and bonuses; if he fails to complete his task, one month's bonus and half a month's wages will be deducted. Once the new product is approved for production, the technician who created it will be given 0.1 percent of the first year's sales as a design award. If the product is withdrawn from production due to technological or quality factors, this design award will be withdrawn from the worker.

The contract responsibility system makes the technicians responsible for the product from the design stage through production to sales, closely linking the development of new products with the technician's rights, responsibilities, and interests, and promoting the development and popularization of new products. Since the introduction of this system in [year indistinct], 25 new products have been developed and put into production, including diesel engine testing equipment, vehicle noise analysis instruments, oil dewatering equipment, and so on, with several new products going into production each year. Due to the fact that these new products have suited market needs, and have been renewed constantly, there have been considerable increases in both sales figures and profits each year. The technicians not only take seriously the research and development of new products, but are particularly careful about the popularization and utilization of these products.

### **The Lanzhou Steel Plant Introduces a Contract Responsibility System**

In carrying out reforms and developing its technology, the Lanzhou steel plant has introduced a contract responsibility system for its engineers and technicians, which has played an important role.

This method was introduced last year. They contracted out 35 key technical transformation tasks to 90 engineers and technicians, of which 32 have already been fulfilled, and are being used in production. This has been the best ever year for achievements in technological transformation in the factory.

This year, the factory has decided to contract out all of this year's planned 32 projects for technological transformation to its engineers and technicians. It has already officially signed 23 such agreements. Once the projects are completed, it is predicted that they will create yearly profits of over 4.4 million yuan.

The specific method for introducing this contract responsibility system in the Lanzhou steel plant has been as follows: First, a good technological transformation plan is drawn up. On this basis, quotas for raising product quality, cutting consumption, and so on, are drawn up, and specific projects for technological transformation for the year concerned are decided upon. Following this, the chief engineer's office takes responsibility for organizing the relevant personnel to conduct examination and research, gradually forming technological plans and carrying out feasibility studies. Once these are officially passed, the chief engineer contracts the various tasks out to the engineers and technicians. These projects may be taken on by individuals or groups, with both sides signing a technological contract agreement. The substance of the agreement contains investment figures, schedules, economic results to be attained and the method of reward. The agreement also stipulates that for the 3 months following the completion of the project, there will be a 3-month production trial period before the agreement can be officially ratified.

### **Beijing Municipal Car Axle Factory Carries out a Price-based Purchasing Economic Responsibility System**

When the Beijing Municipal car axle factory introduced a price-based purchasing economic responsibility system in its semifinished goods workshop, it removed the "ceiling and floor" on staff and worker incomes. Over the past 2 months or so, the workshop has achieved higher quotas than ever before in its history. In May, the main production workshop also put this system into practice.

The car axle factory is a collectively-owned enterprise, manufacturing mainly axles and cables for cars, motorcycles and engineering machinery. Last year, at the same time as fulfilling the whole of the state plan, they achieved a 141 percent profit increase. This year, they have planned on this basis to not increase personnel or equipment but still to increase their profit quota by 80 percent. To this end, they have drawn up economic responsibility systems for purchasing, cutting costs, and being responsible for profits and



losses, which were introduced in a pilot project from the semifinished products workshop in March this year.

The main practice of the price-based purchasing system is as follows: the production workshop calculates an intra-factory unit price for the semifinished or finished products it manufactures, while the factory purchases these products every month from the workshop at this unit price. From the income received from these sales, the workshop must deduct costs and other subsidiary expenditures, while the remainder, in addition to being used for expenditures on workers' wages, is distributed according to the following ratio: 66 percent for the state, 16 percent for the whole factory, 16 percent for the factory administration, and 2 percent for the workers. This system stipulates that when the factory buys products from the workshop, it must first carry out strict checks, and when the products are found to be up to quality standards, they may be purchased at the full unit price, while if they are one grade down they may be sold at only 85 percent of this unit price.

If the workshop management is bad, products will not be sold, costs will rise, and if the amount of funds thus taken up exceeds the quota stipulated by the factory, the workshop must ask for a loan from the factory in order to maintain reproduction in the workshop. If this happens, not only will the workers be unable to draw extra-wage incomes, but some or all of their wages may be docked. The system also stipulates that if workers fulfill the quota stipulated by the workshop they may only draw 90 percent of their wages plus the various foodstuffs and other subsidies designated by the state. Once they have fulfilled the quota, they receive 2 percent of the unit price of each commodity produced in excess of the quota, in addition to their normal wages.

The introduction of the price-based purchasing economic responsibility system, at the same time as removing "ceilings" on wages, genuinely removes the "floors," so that the economic income of workers depends only on the enhancement of productivity and the lowering of costs, which encourages workers consciously to tap production potential. Following the introduction of this responsibility system in the semifinished products workshop, a series of new changes occurred:

1. Work productivity was stressed, leading to a 20 percent reduction in personnel, and a 49-79 percent increase in output.
2. Everyone paid attention to economizing, and costs were cut by 8.4 percent. Following the introduction of price-based purchasing, the drop in product costs directly increased workers' economic incomes, and everybody hence became much more careful in production, cutting down on use of water, electricity, and raw materials. Operations technicians had room to display their talents, and a high tide of studying operations technology is rising up among the workers.



3. At the same time as ensuring the increased income of the state and the collective, there were marked increases in individual incomes as well. To take the March incomes in the semifinished products workshop as an example, after deduction of product costs and other subsidiary expenses, the workshop made over 65,000 yuan of profit, 98 percent of which was given to the state, the factory as a whole and the workshop itself, and 2 percent of which was distributed by the workshop as extra income. In that month, 29 workers in the workshop received 40-60 yuan of extra income, while 12 received 80-90 yuan. The highest extra income drawn by any worker during April amounted to over 100 yuan, and those workers who received this extra income felt that they had made a glorious contribution to the state, while those who had received less had to agree.

#### The Harbin Dyeing Machine Factory Experiments With the "Rolling" Wage System Within the Factory

Beginning early this year, the Harbin dyeing machine factory tried out an "intra-factory rolling" wage system among its production workers and technicians in which there was "one roll a year, one cycle every 3 years, and a grading every fourth year."

This wage system used as its basis the various quotas drawn up for the work standards responsibility system, and used a 3-year cycle. Within the 3 years, at the end of each year outstanding workers and technicians were selected at a ratio of 30 percent in the first year, 35 percent in the second year, and 40 percent in the third year, to be given first grade wages in the factory. The grades were also defined at the end of the year; there were three grades in all. Within the 3-year cycle, workers or technicians would be paid according to the year in which they were selected. Those most outstanding workers who were selected for 3 years running would from the beginning of the fourth year be promoted one wage grade according to the state's eight-grade wage system. As soon as the first 3-year cycle was completed, apart from across-the board wage rises, all those extra wages given out by the factory under the above system were made null and void, and instead a second 3-year cycle would begin, with new selections.

According to statistics, in each cycle, around 5 percent of the factory's workers were declared outstanding elements and promoted one grade. This promotion was such that as long as the worker did not leave the factory it would never be cancelled. This wage system trained the staff and workers to see the factory as their home, and to love it as their home because they were the masters of it. It meant that around 30 percent of the workers maintained speedy progress and a competitive spirit, encouraging others in the factory to do the same and becoming its backbone.

While the wage system is still in the experimental stage, it will carry on with the state's eight-grade wage system and its wage system for technicians and administrators, adjusting wages according to unified state planning. The funds for this wage system come from the bonus funds for the whole factory. Statistics show that the amount of the total bonus funds taken up by the wage system in the first 3 years amounted to 10 percent in the first year, 19 percent in the second and 36 percent in the third.

The factory head said that when this wage system was first proclaimed, it surprised and pleased the whole factory, but some people were afraid that when it would mean they would not be paid. But the first few months of the pilot project produced marked results, and the enthusiasm for production among the workers was higher than ever, creating unprecedentedly good standards.

**The Shanghai Vehicle Transportation Company Introduces a System of No Ceilings on Piecework Wages for Work in Excess of the Quota, no Floors on Deductions for Failure To Reach the Quota, and Produces Marked Results**

The method of distribution in which there is "no ceiling on excess-of-quota piecework wages, and no floor on under-quota wage deduction" has mobilized the initiative of the first line workers at this Shanghai company, such that those who worked well work even better, and those who were lazy have become diligent.

This new distribution method involves the following: Based on certain production conditions, a fixed quota is defined for each driver and loading worker. Those workers who fulfill the quota can draw a basic wage, while those who exceed the quota, in terms of tonnage-miles for drivers, and in terms of piece goods for loading personnel, shall draw an excess-of-quota wage; while those who fail to fulfill the quota have some of their basic wage deducted. This method also stipulates that there is no ceiling on excess-of-quota wages.

At present, the company, which is responsible for over half the transportation of the whole of Shanghai Municipality, has introduced this distribution method for 33 truck teams and nearly 7,000 drivers and loaders. Last year, wages were deducted a total of 1,300 times, the most for any single person being a deduction of 20 yuan in a month. But calculated over the whole year, the average excess-of-quota wage earned by each person was 17 yuan, with 75 percent of the work force earning some excess-of-quota wages, and the most earned by any one person in a single month being 80 yuan. Last year, after this distribution system was experimentally introduced, labor productivity increased by 12.75 percent over the previous year. These 33 truck teams reduced their frontline workers by 300 from the previous year, but managed nevertheless to transport tens of thousands of tons more goods; costs dropped 6.1 percent, while profits increased 10.8 percent. Taxes to the state increased by 2.5 million yuan, while the enterprise itself retained more than 700,000 yuan in profits.

**Shenyang High and Medium Pressure Valve Factory Links Bonuses With Costs**

Beginning in January this year, the Shenyang high and medium pressure valve factory changed the previous system of linking bonuses to various targets into one whereby bonuses were linked directly to product cost quotas, achieving marked results. In a single quarter, under conditions of inflation in the price of raw materials, electricity, and oil, the cost of comparable commodities nevertheless dropped 1.66 percent over the previous year, while profits handed over to the state rose 15 percent compared with the same period the previous year.

In the past, this Shenyang factory had carried out a percentage incentive scheme, linking bonuses to around 10 different quotas, including output, quality, variety, safety, costs, family planning, and so on. Sometimes costs rose and results deteriorated, but other quotas were fulfilled, so bonuses were drawn just the same, and thereby failed to serve their purpose of encouraging the enhancement of economic results. Therefore, they decided to introduce the method of linking bonuses directly to costs.

The factory divided up the bonus funds into 80 percent of basic funds and 20 percent for adding or subtracting funds. Those who fulfilled the cost quotas received the basic bonus, and on this basis, an extra bonus was added according to the fulfillment of quotas for output, quality, and so on; if the quota for cutting costs was overfulfilled, bonuses could be given out at a rate of 5 percent of the amount by which the quota was exceeded. Once this system was introduced, the whole factory did all it could to cut consumption. In the past, when the steelcasting workshop had no 46-yuan-per-ton molding sand, it would use 200-yuan-per-ton manmade limestone sand for casting, which was a huge waste. Today, with the prerequisite of ensuring product quality, the workshop does not use high-priced materials. In one quarter, the workshop spent 90,000 yuan more on electricity but cut its costs over the same period the previous year.

#### The Chengdu Copper Tubing Factory Carries out a Wholly Floating Wage System

The Chengdu copper tubing factory has eliminated the eight-grade wage system and implemented a wholly floating wage system based on rewards for economic results, and after a trial year, has produced fine results.

This factory's wage reform was carried out on the basis of the fine results achieved through the rectification of the whole enterprise, a relatively healthy inner responsibility system, and higher economic results than ever before. First, they calculated a basic workshop wage based on the number of workshop staff and their previous wages, bonuses, nightshift subsidies, and other figures concerning individual incomes, and used four of the eight quotas drawn up by the state (output, quality, consumption, and safety) to assess the workshop. By fulfilling the quotas thus worked out by the factory, the workshop could draw the basic wage, and if it exceeded or failed to fulfill the quota, wages would increase or drop accordingly. For example, for every tons of excess output the workshop wages would increase by 100 yuan, while wages would be cut by the same amount for every ton by which it failed to fulfill the target. There were no floors or ceilings, and the overall interests of the workshop were linked with the fulfillment of the state plan. The second step was to draw up a series of graded criteria by which to judge labor, based on categorizing the type of work, its heaviness, or technical complexity. These criteria became the basis for judging individual labor output, such that the labor remunerations of each individual staff member or worker went up and down according to the extent of his contribution to the workshop. In this way, the "value" of the workshop was first assessed, and then the monthly wage of each individual worker was calculated according to his or her individual contribution. The monthly wage of each worker was thus affected

by two factors: First, the overall economic results achieved by the workshop would decide the amount of money to be given to the whole workshop, and second, the work performance of each worker would dictate the amount of income he received.

Following the reform of the wage system, wage expenditures in 1983 increased by 11,900 yuan over 1982, a 5 percent increase; while taxes handed to the state last year increased from 1,006 yuan in 1982 to 1,300 yuan per capita, a 17 percent increase. During the first 3 months of this year, the per capita tax rate was 593 yuan, an increase of 1.5 times over the same period last year.

When introducing the wage reform, this factory clearly stated that the normal labor insurance benefits would not be eliminated, and wages for work accidents, sick leave, marriage leave, and funeral leave would not be floated. They transferred those staff and workers too old or sick to work properly away from the first line, and gave them suitable work. They adopted a system of "bonuses for time" for these workers; their wages were not floated, but instead they were assessed thorough a work responsibility system.

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## ECONOMIC MANAGEMENT

### IMPROVING ECONOMIC RESULTS OF MEDIUM-SIZED CITIES

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[Article by Luo Zicheng [7482 1311 4453] and Qi Jingsheng [7871 4842 3932]: "Several Questions on Raising the Economic Results of Industries in Medium-Sized Cities"]

[Text] Last year we visited Changzhou, Anqing, and various other cities to carry out investigations, with a view to raising the economic results of industries in medium-sized cities. On our visits we heard introductions and outlines concerning this question from relevant work units. After summing up the various opinions on this question, we have formed the following few viewpoints.

#### 1. There Must Be Emphasis on Research Into Strategies for Economic Development in the Industries of Medium-Sized Cities

For many years, we have placed considerable emphasis on the development of large-scale cities and large-scale enterprises and this is entirely correct. However, there has to a certain extent not been sufficient emphasis placed on the development of industries in medium-sized and small cities and in medium-sized and small enterprises and there has, in particular, been a lack of effective guidance for long-term policies, which has led to a blind development of some enterprises and projects in many medium-sized cities. This has become one of the most important factors in the industrial losses and low economic results that we see today. For example, in the city of Yichang, no attention has been paid to factors pertinent to the city and thus during the 1950's the chemical industry was tackled, while during the 1960's they tackled agricultural machinery and in the 1970's they occupied themselves with the military industry. The result was that they got to grips with none of these. In the past when the city of Jiamusi used to organize its construction projects there was a tendency to simply follow the crowd, and thus if everyone else was tackling chemicals, they did too, while if everyone else was tackling electronics, they did too, and if everyone was making washing machines, they did too. A lot of money was spent, great efforts expended but economic results were poor and in some cases, when a project went into operation, the enterprise involved would immediately start to lose money. It can be seen that in the long-term the question of the direction in which and the way in which industries in medium-sized cities should develop, is a

problem closely related to strategic policy. Whether or not this question can be solved will fundamentally affect economic results in industry in medium-sized cities and it is a question facing us today requiring serious study and research. After our initial analysis of these several "star" cities, we believe that a strategy for successful industrial development in medium-sized cities must concentrate on the following three areas:

Firstly, development of industry in medium-sized cities must correspond with national economic development and it must have a foothold in market competition. Over the last few years the city of Yichang has assessed its previous experiences and lessons, and, in accordance with the pressing demand of people throughout the country for light industrial and textile products, it has drawn up a new strategic principle of "a shift from heavy industry, an emphasis on light industry and textiles, upgrade of products and improvements in results." After four years of hard work great results have been seen. The production value of light industry and textiles has increased from 290 million yuan in 1978 to 490 million yuan in 1982, an increase of 69 percent in four years, and an annual average increase of 14 percent.

Second, development of industry in medium-sized cities must concentrate on important products or undertakings and a characteristic industrial structure must be set up. Judging by the situation concerning industrial development in the majority of medium-sized cities, such conditions as natural resources, funds, talent, and technology mostly have to be resolved locally, but quantity is limited. As a result there can be an effective organization of businesses and a profitable industrial structure and the emergence of a characteristic industrial economy only when the natural advantages of a location are fully exploited, when forces and efforts are concentrated, when competitively strong products with a definite future are selected for production, and when the development of the key undertakings is promoted. If a city tries to do everything, then it decentralizes its strength and is unable to tackle any major undertakings or product and the city will get nowhere. Why is industry in Changzhou well organized? The answer lies in the city's guiding ideology for industrial development. They did not open up and expand in all directions, but rather they came to grips with several key products and simply concentrated on improving them constantly. They started out with corduroy, khaki, and printed cloth and then in the 1960's they concentrated on the development of the S195 diesel engine, hand tractors, glass, steel, resin, and so on, while in the 1970's they developed petro-chemicals on a small scale, as well as integrated circuits, bicycles, plastic bags, and other key products. They came to grips with each one, successfully tackled it and then consolidated it. As a result the city was able to constantly increase its economic results and establish its fame. This is perhaps the secret behind the fast development of industry in Changzhou, in comparison to many other areas. Not only did Changzhou, Shashi, and other similar areas come to grips with main products in developing their industries, they also resorted to several very effective measures: On the basis of the principles of specialization and coordination, they studiously set about readjusting, reorganizing, and unifying industry, taking the intentional path to industrial development.

Thirdly, development of industry in medium-sized cities requires a strengthening of comprehensive leadership at the city level. Close cooperation is required in particular between the urban planning committee, economic committee, and scientific and technological committee. Comprehensive and unified developmental plans for the economy, for science and technology, and for society must be drawn up, while industrial production is boldly placed in the front lines. In 1981 alone 220 varieties of new products were put forward by industry, making important contributions towards the development of the region's key products and areas of production. In comparison to this, one of the important reasons for the slowness of industrial development in other medium-sized cities is the lack of coordination between these cities' planning committees, economic committees, and science and technology committees and each committee simply did what it thought was right and necessary. "Each house has its own instrument and each one plays its own tune." In order to improve the comprehensive leadership of industrial development, the city of Changzhou had two more stipulations: the first was suitable organization of cadre exchange, such as sending the head of the economic committee to work as head of the science and technology committee and sending cadres from the latter committee to work in the economic committee. The second was the implementation of feasibility studies on major scientific research results or new products items, carried out jointly by the planning committee, the economic committee, the science and technology committee, and the financial bodies. This involved joint communication, and joint organization of people, finances, and materials. This kind of effective inter-departmental cooperation also spread to important areas of industrial construction. Cadre exchange and close coordination between various relevant departments has now proved itself to be an effective way of developing the economy of medium-sized cities.

## 2. Improving Economic Results in the Industries of Medium-Sized Cities Should Be Foremost in the Work of Enterprise Consolidation

There are at present a total of 70 medium-sized cities in China with populations of between 200,000 and 500,000. The average index of their industrial economic results is generally lower than the national average for urban areas. For example the profit tax yielded by 100 yuan of funds and 100 yuan of fixed assets in these medium-sized cities is 85 percent and 86 percent respectively of the national urban average. Labor productivity is 88.5 percent of the national urban average. If one compares the average level of industrial economic results in medium-sized cities with that of large cities with populations of 2 million or more, these differences become even greater. In terms of populations, size of work force, and total fixed assets, the medium-sized cities exceed or approach the levels of the above-mentioned large cities, but the gross industrial production value of medium-sized cities is only 60 percent of that of large cities, while profit tax is only 50 percent. If the level of profit taxes handed over to the authorities by medium-sized cities could reach even 75 percent of the level of large cities, then profit tax revenue would be increased by 25 billion yuan. From this we can see that the potential for industrial economic results in medium-sized cities is enormous. There are in addition large differences in the level of economic results among different medium-sized cities and, with the exception of a small number of these cities such as Changzhou, Nantong, and so on, the level of economic

results in the vast majority is low. For example, there is a difference of 179-fold between the highest and the lowest profit taxes yielded by 100 yuan of fixed assets; 45 cities have levels lower than the average level for medium-sized cities, making up 64.3 percent of medium-sized cities. For another example, in net production value created by each worker there is a difference of 21-fold between the highest and the lowest values; 36 medium-sized cities have levels lower than the average level for medium-sized cities, making up 51.4 percent of the total number of medium-sized cities. On the basis of the above analysis, the adoption of effective measures to bring into play the enormous potential of industry in medium-sized cities, will play a very important role in improving the financial and economic condition of our country.

How can we quickly improve the economic results of industry in medium-sized cities? Judging from the present situation, during enterprise consolidation we must come to grips with all consolidation work which centers around improving economic results, implementing all measures where necessary and suitable so that the enterprises in these areas may take on a new look even after initial consolidation work and so that their economic results may gradually improve. For example, this is how enterprise consolidation in Anqing has been tackled, and the results have been good. The first batch of enterprises in this city whose consolidation work had passed the acceptance test showed a 12 percent growth in production value during 1983 over the previous year while the profits yielded were 15 percent higher than during the previous year (calculated on the basis of fixed specifications). The rate of profit growth in these enterprises exceeded the rate of growth of production value. The same changes were seen in other similar regions. Naturally, in the process of enterprise consolidation, the most important question is still to concentrate on reorganizing the leading groups in enterprises so as to ensure that the leading groups conform to the demands of youthfulness, expertise, knowledge, and revolutionariness. Of particular importance is the need to carefully and correctly select important responsables in the leadership groups. Do these people have the character of an entrepreneur? Do they show devotion to their work and high economic sensitivity? These are important questions which affect the ability to improve industrial economic results.

### 3. Some Questions Requiring Research and Solutions

Firstly, the question of channels of circulation. On the basis of response from all regions, after the implementation of the selection system in commerce, the creation of outstanding new products in industry was stimulated. However, on the other hand, the role of commerce as a major channel in the sphere of circulation was weakened somewhat and this led to an increase in the proposition of sales and in the production costs but a reduction in the profits of the industries. For example, since 1983 there has been a steep rise in the costs of product sales of the Anqing textiles office system and over the last 8 months alone, these costs have increased by 370,000 yuan, equal to the reduction of profits during the same period resulting from the increases in the prices of raw materials. Judging from practice, products not purchased by commercial departments can basically be sold as a result of the hard promotional work of the factories and some of them even become very



marketable goods in markets elsewhere. Therefore, the question of improving marketing work of the commercial departments and making them play the role of the major channel for goods circulation, is an important question worthy of study in the macroeconomic work of improving socioeconomic results.

Secondly, the question of talented personnel. Medium-sized cities lack scientific and technological, and management personnel and this is fairly universal. It is also an important factor in the low economic results of medium-sized cities. When one looks at the ratio of textile-related technological personnel in the overall numbers of workers, we see that in Changzhou it is 2.4 percent, and in Anqing only 0.98 percent. (In Shanghai is 4 percent). Because of this lack of talented and trained personnel, the quality and character of those in charge of the first line of production in many enterprises is very poor. In addition, as the older generation of technological workers retired, the technological quality of workers and grassroots cadres in enterprises is clearly dropping. As a result the question of how to solve the problem of the lack of trained and talented personnel in industrial development in medium-sized cities has now become a very pressing and urgent problem. Apart from mainly relying on individual adjustments and training, the way to solve this problem also lies with the state, by annually allocating more university and college students. At the same time various committees and departments should also offer training courses for economic management cadres so as to correspond with the quotas of medium-sized cities, while large cities provide more support for medium-sized cities.

Thirdly, the question of information. This problem is another real headache in the development of industry in medium-sized cities. It is hoped that the relevant departments as well as newspapers and magazines will diffuse more economic, scientific, and technological information and organize more kinds of information exchange between large and medium-sized cities, establishing lively and successful information networks which can more effectively serve the aim of improving industrial economic results.

CSO: 4006/1

## ECONOMIC MANAGEMENT

### JOURNAL ON EVALUATING, LEARNING FROM REFORMERS

HK060315 Beijing JINGJI GUANLI in Chinese No 6, 5 Jun 84 pp 5-6

[Commentary: "How To Evaluate Correctly and Learn From Bu Xinsheng's Experience"]

[Text] The revolutionary spirit of Bu Xinsheng, director of the Haiyan County general shirt factory, in emancipating minds, bravely carrying out reforms, and striving to blaze new trails has won the support of the Zhejiang Provincial CPC Committee and has been confirmed and praised by the CPC Central Committee. Now an enthusiastic drive to learn from Bu Xinsheng's experience has been launched throughout our country and tens of thousands of people request tours to Haiyan County general shirt factory to learn from its experience. This is a good phenomenon. However, there has also been the problem of how we are to correctly evaluate and learn from Bu Xinsheng's experience.

We think that we should answer this question from two angles.

First, how should the cadres in our enterprises correctly evaluate and learn from Bu Xinsheng's experience?

A central leading comrade pointed out: "It is worthwhile to encourage the spirit of Bu Xinsheng, director of Haikou County general shirt factory, in emancipating people's minds, bravely carrying out reforms, and striving to blaze new trails. For those enterprise leading cadres who are slack and perfunctory in doing their work, who have for a long time been content with their ignorance of their profession, and who work perfunctorily every day, Bu Xinsheng's experience is a good medicine to cure their disease and to provide them with beneficial instruction."

This important instruction of the central leading comrade has clearly pointed out that the fundamental significance in Bu Xinsheng's experience lies in his "spirit in emancipating minds, carrying out reforms bravely, and striving to blaze new trails." It is the disease of being content with the existing state of affairs, being uninterested in reforms, having no courage to blaze new trails--the disease of "being conservative" and "being lazy." What should we mainly learn from Bu Xinsheng? We should mainly learn from his spirit in carrying out reforms and blazing new trails indomitably.

Now Bu Xinsheng and the Haiyan County general shirt factory have already become a typical example for the whole country. For many years, we have had a habit of "rushing to do the same things" and "seeking uniformity." Whenever there is a typical example, people will rush to copy it. Since it is a typical example, people will rush to copy it. Since it is a typical example, it must be good and advanced in every aspect, and all units should copy it exactly, no matter what trade a unit is engaged in and no matter what the actual conditions in the unit are. Once a defect or shortcoming is found in a typical example, people will "attack its one defect and disregard everything else" and thus entirely negate it, or they will stress the special conditions of the typical example and insist that as their own units do not have such special conditions, they cannot learn from the typical example. The fundamental cause for this kind of 180-degree change is that they adopt a metaphysical attitude toward advanced experiences.

In learning from Bu Xinsheng's experience, we must clarify: Should we mainly learn from the management experiences of the Haiyan County general shirt factory or should we learn from Bu Xinsheng's spirit in carrying out reforms and blazing new trails?

Now there is a trend: it seems that Bu Xinsheng has created a typical example for enterprise management; therefore, learning and popularizing Bu Xinsheng's experience means learning and popularizing all the management experiences of the Haiyan County general shirt factory.

As Bu Xinsheng dares to carry out reforms and blazes new trails, under his leadership, all the staff and workers in Haiyan general shirt factory have conscientiously made efforts and have indeed gained many valuable and fine experiences in the administration and management of their enterprise. For example, they have followed the 20-character principle of "paying close attention to production, being strict in administration, enlivening the management of the enterprise, and showing concern for the livelihood of staff and workers"; in conducting their management, they have "paid attention to creating a reputation for the factory's brands, have been brave in charting new paths and developing distinctive features for their products"; they have formulated the principle for running their factory of "giving priority to quality and reputation"; and they have proceeded from reality, broken through the old regulations and conventions, and established a set of management systems with distinctive special features in the aspects of personnel, distribution, factory discipline, general mood of the factory...and so on. Through these systems, they have linked the immediate interests of the staff and workers with the destiny of the factory. Moreover, they have regarded giving play to the collectivist spirit of the staff and workers as the main content of their ideological and political work. All these are fine experiences that provide us with reference material. However, can we think that the management in Haiyan general shirt factory is a typical example of a Chinese mode of enterprise management that is perfect and applicable to all enterprises in the world? Certainly, we cannot draw such a conclusion. We should confirm that they do possess many fine experiences. However, some of these experiences are unique, advanced experiences of their own; others have also been gained by other factories, the experiences of which may be more perfect than those

of the Haiyan general short factory. The factory may have failed to gain the advanced experiences that other factories have already gained. It may also have some shortcomings in its management.... A socialist enterprise management system with Chinese characteristics should gradually take shape through summing up and collecting all the fine experiences of our country and absorbing the foreign experiences that are useful to us. We must not and cannot use one enterprise as an "exemplary pattern" and thus give rise to new conventions and fetters.

The key to learning from Bu Xinsheng's experience is to learn from his spirit in carrying out reforms and blazing new trails. The path that Bu Xinsheng has followed in carrying out the reforms has not been a smooth one, but he said: "I believe in the line of seeking truth from facts that was formulated by the 3d Plenary Session of the 11th CPC Central Committee. Even if I had 100 labels stuck on me because I had carried out reforms, 100 years after my death, the party would rehabilitate me." This firm confidence in the party's line and this revolutionary spirit in having the courage to forge ahead against the wind are what our enterprise cadres should give priority to learning from. As long as we have such a spirit and proceed from our own reality, every one of our enterprises will be able to create successful management experiences with its own characteristics. Of course, we do not mean that we should create our own experiences in doing everything, nor should we "create" new experiences for the sole purpose of being different from other people. We should be good at absorbing all useful experiences and this is precisely a virtue that a reformist must have.

Now our press has widely publicized Bu Xinsheng's experience. This will play a very positive role in promoting the reforms and the economic construction. However, we must also see that by discovering and supporting Bu Xinsheng, the Zhejiang Provincial CPC Committee have also provided us with a fine experience in promoting party rectification. We should not only publicize the deeds of our reformers, but should also vigorously publicize the supporters of reforms and publicize the fine experiences of organizations at various levels in promoting party rectification. In a sense, the latter is more important than the former.

Bu Xinsheng's spirit of reform and creativity is very valuable. It has been discovered by the Zhejiang Provincial CPC Committee and has won the support of the CPC Central Committee, and thus become well-known all over the country. However, we should not thus give people the false impression that there seems to be only one Bu Xinsheng in our whole country or think that only Bu Xinsheng is the most typical reformer. This is not the case. The spirit of the 3d Plenary Session of the 11th CPC Central Committee has struck deep roots in the hearts of our people and there have been a large number of reformers like Bu Xinsheng all over our country who have made up their minds to carry out the reforms and who are brave in practice. Like Bu Xinsheng in the past, some of them are struggling to forge ahead under difficulties, and have not been discovered, let alone getting any support. Others have not had such good fortune as Bu Xinsheng, have long been dismissed, transferred to other jobs,



or even sentenced to imprisonment. Still others have been forced to retreat from reforms under the crushing pressure of attack from gossip and criticism. These millions of Bu Xinshengs perhaps live right next to you or work under your leadership. If you do not take off your "leftist" spectacles, you will look but not see and listen but not hear. Comrade Hu Yaobang instructed us that we had to use party rectification to promote our economic development. It is imperative for our leading organizations at all levels to learn from the party rectification experiences of the Zhekang Provincial CPC Committee, to support the reforms, and to emancipate millions of "Bu Xinshengs." We say that publicizing the experiences and merits of the supporters of reform is more important than publicizing the experiences of reforms. This is precisely because when we have one supporter of reformers, he will discover 10, 100 or 1,000 reformers. This will be much more useful for promoting reforms. The reason Bu Xinsheng's reforms have not been strangled in their cradles is that he has the support of Shen Yaocheng, director of the county No 2 light industry bureau, who thinks that "it is easy to recruit 1,000 soldiers, but difficult to get a general." There has also been Comrade Jin Lianfu of the county financial bureau, who was not afraid when other people said that he helped the Haiyan general shirt factory to "evade taxes" and who supported the factory. All these comrades are also reformers; what is more, we can say that they are even more important reformers. When we learn from Bu Xinsheng, we should not forget to learn from the revolutionary spirit of the comrades who dare to resolutely implement the 3d Plenary Session of the 11th CPC Central Committee.

It is not easy to be an indomitable and persistent reformer, but it is even more difficult to be a supporter of reforms. If you have failed to discover the several Bu Xinshengs by your side, it is easy for you to correct your thinking now, to heighten your awareness, and to discover and support them. The difficulties lie in the question of what we should do if this "Bu Xinsheng" is precisely a man whom we have opposed and wrongly punished. There should be great courage in carrying out self-criticism against the remnant influence of leftism in our minds and in correcting our mistakes in the manner of seeking truth from facts. We must praise highly those comrades who proceeded from the interests of the party and the revolution in this manner and dare to correct their mistakes. For, after all, they are reformers. Where they differ from other people is that they have first reformed themselves and have then plunged themselves into the rising tide of new reforms.

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## FINANCE AND BANKING

### BANKS SUPPORT AGRICULTURAL, INDUSTRIAL REFORM

OW100817 Beijing XINHUA in English 0653 GMT 10 Sep 84

["New Role Evolving for Chinese Banks--25th of the National Day Focus Series"--XINHUA headline]

[Text] Beijing, 10 Sep (XINHUA)--Chinese banks are reaching for a new and more active role in supporting the country's current agricultural and industrial reforms.

During its development in the 35 years of the People's Republic, the banking system has hinged on the People's Bank of China. That central institution is flanked by the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China and the People's Construction Bank of China. Other monetary organizations include the People's Insurance Company of China, trust and investment corporations and rural credit cooperatives.

The banks now hold operational funds of over 50 billion yuan, with 400 billion yuan in working capital for domestic use.

As it continues to grow along with China's developing economy, the banking system has taken an ever more important part in the readjustment of agriculture, light industry and heavy industry. Since reforms were mandated in late 1978, loans to agriculture have risen by 22.2 billion yuan--nearly 1.4 times more than all the increases registered in the previous 29 years. Loans to light industry and textiles also jumped by 22.5 billion yuan, to 53.5 percent of all industrial loans--up from only 35.3 percent in 1978.

More loans are further being offered to bring new technology into older enterprises and to fund key projects in energy and communications. From 1980 to 1983, 23 billion yuan was issued for over 60,000 technology-related projects, increasing their output value by 60 billion yuan and earning the government over 10 billion yuan in taxes and profits.

Loans last year accounted for one-third of all funds for production, making banks a major channel for the allocation and distribution of China's financial resources.

In rural areas, Chinese banks have shifted from backing grain output to funding the production of commodities marketed under the responsibility system. Since its restoration in 1979, the Agricultural Bank of China has thrown its support behind the 180 million peasant households who have joined the contract system--moving away from its previous emphasis on the funding of commune production teams.

Another significant shift is also taking place in the Bank of China, which has jumped into a major role in foreign exchange markets. The Bank of China now has 275 branches abroad, and does business with over 1,000 foreign banks in 149 countries and regions. It is now actively raising funds and issuing loans for works including a nuclear power plant at Daya Bay, in Guangdong Province, the giant Pingshuo coal mine project in Shanxi and offshore oil exploration along the North China coast and in the South China Sea.

CSO: 4020/2

## FINANCE AND BANKING

### RENMIN RIBAO DISCUSSES IMPROVEMENT IN RURAL SAVINGS

HK130732 Beijing RENMIN RIBAO in Chinese 10 Sep 84 p 1

["Facts and Figures" column: "Rural Savings Are Ever on the Rise"--based on the data of the Agricultural Bank of China]

[Text] China's broad laborers in the rural areas before liberation were in a continual state of enslavement. They not only had no money for savings, but also were in constant debt. In the period just after the founding of the PRC, the individual savings of peasants were basically empty, except in those areas that had been liberated long before.

According to statistics, by the end of 1983 rural savings in such institutions as the Agricultural Bank and credit cooperatives totalled 38.7 billion yuan. Of this figure, 32 billion yuan were the individual savings deposits of peasants in credit cooperatives, an increase of 73.7 times compared with 1956, 21 times compared with 1966, or 7.7 times compared with 1976. According to the statistics, by the end this [word indistinct], the individual savings deposits amounts of peasants in the Agricultural Bank and credit cooperatives totalled 43.44 billion yuan, or increased by 12 percent compared with all of last year, in just 7 months' time. In a period of 4 years, 7 months, from 1979 to July of this year, rural savings deposits have increased by 33.48 billion yuan. Thus, the individual savings deposit is more than 51 yuan per capita in the rural area.

In the wake of development in the rural financial situation, the number of branch offices and offices established by the Agricultural Bank below the county level is now more than 27,000. By the end of 1983, the number of cooperative financial organizations below the township level run by the masses--credit cooperatives and their branch offices and agencies--totalled more than 369,300. Among these organizations, more than 55,900 were independent accounting credit cooperatives. Hence, this has created a financial network that covers the whole country and that serves the broad laborers in the rural areas. The development of rural financial undertakings reflects the rapid development of China's economy in the rural areas.

CSO: 4006/1



## FINANCE AND BANKING

### LIAOWANG DISCUSSES ENTERPRISE BANKRUPTCY ISSUE

HK190642 Beijing LIAOWANG in Chinese No 35, 27 Aug 84 p 20

[Article by Guo Hongyu [6753 1347 1342] Of the Industrial and Commercial Bank of China: "On Bankruptcy of Enterprises Running at a Loss"--first paragraph is editorial introduction]

[Text] In this year's ninth issue, LIAOWANG carried articles and reports on the law of enterprise bankruptcy. We now publish another two articles written by our readers to further probe this issue:

Early this year, a comrade in charge of the financial work of an enterprise came to see me. He told me that a state enterprise there had suffered deficits for years running and could not pay its debts even with their assets, so the city economic commission decided to close the enterprise. However, this enterprise had borrowed a sum of several hundred thousand yuan from the factory in which he worked and was unable to repay the money. He inquired of the provincial and city economic and financial departments and also the Ministry of Finance in Beijing about the matter. But he failed, and no one undertook the responsibility for the debt incurred by the enterprise. The case reported by this man indeed merits attention and further study.

The term "bankruptcy" is often used when we study the economy of capitalism and old China. However, this term is seldom used when we study the socialist economy. It is said that this is one of the "forbidden zones." It is as if in a socialist country, there is every reason for the state finance to gratuitously compensate for and subsidize the losses incurred by enterprises and there is no reason at all for the enterprises to go bankrupt or to assume sole responsibility for their losses. It seems that when we talk about enterprise bankruptcy, it means "negating" the superiority of the socialist public ownership system. As a matter of fact, this is a complete misunderstanding. It is just like the erroneous understanding in the past of some comrades who held that commodity production and exchange did not exist in socialist society.

Naturally, such a misunderstanding has an objective cause. For a considerable time in the past, bankruptcy actually did not exist among China's state enterprises. This is because although some enterprises were unable to repay

the debts that exceeded their assets, the state (finance) always backed them and compensated for their losses. Consequently, many people publicly acknowledged that it would "save a lot of worry" to work in state enterprises, it would be "most relieving" to conduct business with state enterprises, and it would be "most secure" to obtain loans from state enterprises. This is indeed rational in one regard, but due to the method and management system of the "big public pot" practiced for a long time in the past in which the state monopolized revenue and expenditure and subsidized and compensated for losses, a number of cadres acquired lazy habits which adversely affected many enterprises and the building of the four modernizations.

Since the trial implementation of structural reform, the attainment of better economic results has been emphasized as the key factor. A considerable number of state enterprises have assumed sole responsibility for their profits and losses and have substituted tax payments for the delivery of profits. The state has also stipulated that it will no longer compensate for losses incurred by enterprises due to poor management, and the banks will no longer grant loans to such enterprises. As a result, the question of how to handle the bankrupt enterprises has become increasingly prominent.

In fact, it is by no means a strange thing for the phenomenon of enterprise bankruptcy to exist in a socialist country. This is because commodity economy still exists in our country. Viewed from the angle of macroeconomy, success or failure in the competition between several hundred thousand industrial enterprises precisely reflects the continuous functioning of the "cells" of the entire national economy. This is an excellent thing. The problem is what attitude and method we should adopt in handling the matter.

First, the fundamental task is to strive to improve the quality of enterprises and appropriately formulate policy decisions for operations and management. Only in this way can we provide against possible trouble.

Second, the bankruptcy and closing of enterprises should be appropriately handled from beginning to end. The assets (fixed and floating assets) of various items should be carefully checked, registered, and preserved. Instead of gratuitous allocations, payments should be received for the materials and equipment to be disposed of or allocated so as to prevent some people from taking advantage in order to reap a profit. The competent authorities at higher levels have due responsibility in this respect.

Third, it is necessary to appropriately arrange the studies and lifestyles of the staff members and workers and offer them new opportunities to earn a living. The state has clearly defined that the income from the assets disposed of in the bankrupt enterprises and other income should first be used to pay the workers' wages and the necessary charges for checks and maintenance. If the amount is insufficient, the financial departments may, upon approval, allocate a certain amount for subsidies. Nevertheless, such a method cannot be carried on for long. Therefore, the only way out is to actively help the staff members and workers look for new jobs so that they can serve the society. Regarding this matter, we should broaden our scope and emancipate our minds. Apart from the arrangements made by the higher level departments

in transferring some workers, there are also bright prospects for the workers to raise funds and jointly run factories or look for jobs by themselves (find jobs in commercial, service, transport, and other trades, which are necessary for the life of urban and rural people). The departments concerned (including banks) should actively give them guidance and support.

Fourth, the creditors should attach great importance to the work of settling the funds. Due to the influence of the "leftist" ideas in the past, we stressed production in spite of circulation, looked down upon the circulation of funds and the settling of accounts, and blunted our sense of value. As a result, the amount of funds for credit sales, advance payments by the banks, and past-due payments constantly increased, whereas some enterprises mistakenly regarded this as an "advantage," which could "expand the circulation" of materials. Today, when commodity economy exists and when we are practicing the system of enterprises assuming sole responsibility for their profits and losses, once the other side suffers from deficits or goes bankrupt, it will be difficult to recall the funds or loans, which will cause a chain reaction. Therefore, we must promptly take note of clearing up and recalling the debts of various items. As to the enterprises that are not properly managed and that do not have good credit, it is necessary to be careful in transacting businesses with them so as to prevent bad debts and losses.

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CONVERSION OF PROFIT DELIVERY INTO TAX PAYMENTS DISCUSSED

Xiamen ZHONGGUO JINGJI WENTI [CHINA'S ECONOMIC PROBLEMS] in Chinese No 3,  
20 May 84 pp 9-13

[Article by Qiu Huabing [6726 5478 3521]: "The Conversion of Profit Delivery into Tax Payments and Its Economic Functions"]

[Text] At present, the State Council has decided to speed up the pace of state-operated enterprises in converting profit delivery into tax payments from the original system of "substituting tax payments for profit delivery and the coexistence of both" to a complete transition to converting profit delivery into tax payments to do away with the original form of after-tax profit delivery in order that taxation will more intensively and extensively enter the economic activities of enterprises and bring into full play the regulating functions of taxation to the macroscopic economy.

I

Starting 1 June 1983, our country has experimented with the conversion of profit delivery into tax payments in state-operated enterprises. The practice since a year ago has proved that the direction is correct, as manifested in the achievement of initial success. (1) The distribution relationship between the enterprise and the state has basically settled for a form of taxation in which the state levies a tax in accordance with the law and the enterprise pays the tax in accordance with the law. (2) The state is assured of receiving the bigger share of approximately 70 percent of the newly increased enterprise income in order to ensure the stability and the increase of financial income. (3) The reasonable income of enterprises is guaranteed, and too fast or too abrupt an increase in the consumer's fund of groups and individuals is brought under control. These reasons explain why the pace of converting profit delivery into tax payments may be done in a speedier and bigger way.

The means of "conversion of profit delivery into tax payments and the coexistence of both" are beyond doubt evident progress compared with the past. However, the conversion of profit delivery into tax payments is after all something new. Some new problems have been exposed during this experiment, and they need to be resolved. The key problems are: (1) the discrepancy in profit level, and the unbalanced happiness and sorrow among trades and enterprises have not been totally eliminated; (2) the distribution relationship



between the state and the enterprise has been stabilized but not fully resolved; (3) we have not yet completely broken away from the unnecessary administrative intervention of enterprises by government agencies of various levels for the sake of their economic interests; and (4) the enterprises are not strong in adapting themselves to price fluctuations. Their reserve profit level will be affected if the selling price of raw materials or products is adjusted. For example the textile mill, the sensitization factory and the canning factory in Amoy, due to changes in prices, saw their total profits in 1983 decrease by 8,560,000 yuan and their reserve profits decrease by 567,000 yuan when compared with those of 1982. The decrease in the amount of reserve profits due to changes in prices, if not studied and solved during the second stage of the conversion of profit delivery into tax payments, will inevitably affect the positive outlook of the enterprises and their employees.

## II

Of course, the existence of the above-mentioned problems is the result of many causes and is related to the transitional measures during the first stage of the experiment in converting profit delivery into tax payments. In order to insure the stability and continued increase of the state's income, and at the same time give the enterprises greater authority in making their own decisions, we must continue to perfect the system of converting profit delivery into tax payments and carry out in time the second stage of reform. Toward this end the following points are suggested:

(1) We must eliminate the form of profit delivery and make taxation the most important channel for state finance to participate in enterprise distribution. The conversion of profit delivery into tax payments in this experiment still retains four kinds of after-tax profit distribution, which are progressive contract delivery, fixed-proportion delivery, regulatory tax payment and quota contract delivery. Irrespective of the adoption of the regulatory tax or the other three kinds of contract delivery, they may still be said to have the nature of profit delivery. The regulatory tax, although a tax in name, is limited during collection by enterprise reserve profits, thus resulting in different rates for each of the households, and therefore it does not possess the inherent characteristics of a tax. At the same time, some enterprises are still fighting, although in a less serious way than before, for the base figure or proportion on reserve profits. In the past, the fight was over the distribution proportion of all the profits, and at present, the fight is over the distribution proportion of the after-tax profits. To conquer this malady, we must change the system of the coexistence of both tax payments and profit delivery, and thoroughly carry out the system of substituting tax payments for profit delivery, in order to bring to play the enforcement, unity and permanent character of taxation.

(2) We must increase tax variety, adjust tax rates and establish the taxation structure of principal-product tax. Tax variety is the key on which the taxation economic lever relies for giving play to its functions. If the categories are too few, they will not be adequate with our country's current situation wherein coexist a diversified economic composition and diversified

modes of management. In the original industrial and commercial taxation system exist the problems of having too few tax categories, too superficial tax items and too low tax rates. Therefore, the reformation of the taxation system should be accomplished through setting up reasonable tax categories and tax rates, to employ the entry into enterprise economic activities by various tax categories, so that taxation will bring into full play its economic lever functions in production management, resources exploitation, capital utilization and profit distribution. The following is the opinion that I agree with, that is, to establish a taxation structure which is principally a product tax, to be supplemented by a resources tax, a capital utilization tax, an income tax and various local taxes: 1. A product tax, which is able to regulate the differential profit, formed when price departs from value. At present, the industrial commercial tax rate of industrial enterprises is rather low, and its average tax liability is only 9.81 percent, while the average enterprise sale profit rate is 16.09 percent. The tax rate does not match the enterprise profit and therefore should be increased. The current industrial and commercial tax has only 30 tax items, mostly classified in accordance with trade or kind of products. There is a big discrepancy in the profit levels of the different varieties belonging to the same tax item, yet the rate of the same tax item is used in tax payment. No effective regulation can be carried out, nor is it possible to treat differently the hundreds of varieties which yield different profit levels. The establishment of a product tax, the provision of more details to tax items, the increase in tax responsibilities and the partial conversion of original profits into a product tax will result in increasing the amount of tax to more than 50 percent of the total profit (total amount of taxes and profits). In this way, the state's financial income is assured and made reliable. Besides, we will be able to go a step further in eliminating the imbalance of happiness and sorrow among trades due to the price factor. 2. A resources tax, which is used for regulating the difference in profits due to differences in resources or other objective factors. Substantially, we may stipulate that those mining enterprises enjoying sales profits of more than 12 percent should pay a resources tax, to be collected at a progressive rate on the excess profits made. 3. A fixed capital tax, which is used to regulate the extra profits made by virtue of high mechanization, advanced technical equipment or the use of a large amount of state capital. This tax also aims at encouraging economizing in capital utilization by enterprises and at enhancing the results of capital utilization. The tax rates may be divided into a few grades to be collected in accordance with capital profit rates. 4. A city construction tax. This is a new tax variety, which may be collected at the rate of 5 percent of the product tax (including the value increase tax and resources tax). The collection of this tax will eliminate the city maintenance expenditure amounting to 5 percent of the industrial and commercial profits to be collected by the municipal finance authorities, and the city construction appropriation arranged in the state budget. 5. A state-operated enterprise income tax, to be collected from the profits of the enterprise after payment of the product tax and other taxes. Since the enterprise profits are an important index in comprehensively reflecting the results of enterprise production management, the income tax, based on the amount of profits, therefore has a comprehensive regulatory function. 6. Restore collection of vehicle and boat utilization tax, land utilization tax and real estate tax. In short, the overall tax category and tax rate structure

to be installed after the conversion of profit delivery into tax payments must be beneficial to the regulation and control of the macroscopic economy, and must remove the effects of the objective factors of prices, resources and equipment on enterprise profits.

(3) The income tax of state-operated enterprises should be converted from a proportional tax rate to an excess progressive tax rate. The tax rate is the control link in the taxation system, and the state requires that taxation components "collect the tax according to the rate." For maintaining the viability of taxation, the tax rates of the same tax category must be uniform. There are a proportional tax rate and an excess progressive tax rate in the current income tax rate for state-operated enterprises. To take care of the reserve profit level of 1982, the difference in the proportional income tax rate has appeared in not a few places, 15 percent or 20 percent for some enterprises and 30 percent or 40 percent for others. For rendering equal the tax burden under the same condition, and for going one step further in bringing into play the functions of the income tax in regulating profits, we must change the proportional tax rate into an excess progressive tax rate and also formulate anew a unified standard tax rate based on the profit level and the reserve profit level. We know that the conversion of profit delivery into tax payments which was tried last year was carried out under the circumstance of an unreasonable pricing system and a difference in the conditions of resources and equipment. Therefore, the amount of enterprise profits was limited to a certain degree by objective factors. Even during the conversion of profit delivery into tax payments, tax categories are increased, more reasonable tax rates are formulated to carry out the regulatory functions and the profits of enterprises will not be possible to reflect fully the degree of subjective efforts. Even in this case, the relationship between the enterprise and the state should be handled on the principle that "the able" should contribute more to the state. As is known to all, the principle of collecting an income tax is "more collection from more income, less collection from less income and no collection from no income." This is the same with the financial income principle of "different in treatment, reasonable in burden." It is more appropriate for state-operated enterprises to use the progressive tax rate. It is suggested that the state-operated enterprise income tax adopt progressive tax rates, with smaller changes in the range of tax rates when the distance between progressive steps increases, determining at the same time the tax starting point and the amount of the exemption. In this way, we may be able to adapt better to the impact on enterprise reserve profits by the change of objective economic factors, may also render comprehensive regulatory functions to the various profit levels of enterprises and go a step further in conquering the malady of uneven happiness and sorrow among the enterprises.

(4) We must continue to perfect the relevant stipulations of the conversion of profit delivery into tax payments which was done on a trial basis last year, and correctly handle the profit relationship between the state and the enterprises. In the economic profit relationship between the enterprise and the state, unity is the dominant aspect. The distribution of the income from all the state-operated enterprises should be subject to the basic interest of the state. According to the statistics in Fujian Province after the trial conversion of profit delivery into tax payments, among the total profits realized



by enterprises, 359 million yuan or 54.55 percent should be collected as a state-operated enterprise income tax, after taxes a profit of 200 million yuan or 30.45 percent should be delivered and 98.83 million yuan or 15 percent were enterprise reserve profits. Upon the experiment in converting profit delivery into tax payment, of the total profit realized after the deduction of the state-authorized single-item reserve profit and the repayment of special loans, 85 percent goes to the state, and 15 percent goes to the enterprise, carrying out the distribution principle of "the bigger share goes to the state, the medium-sized share goes to the enterprise and the small share goes to the individual." However, there still exist some problems during the trial prosecution of the stipulated system of converting profit delivery into tax payments: 1. It is inappropriate to base the forecast figures "in principle on the final accounts of 1982" as stipulated during the experiment in converting profit delivery into tax payments. In 1982, the profits realized by all the state-operated enterprises throughout China increased only by 200 million yuan over that of 1981, yet the amount of the enterprise reserve profits increased by 4.3 billion yuan. We can therefore see that the use of the final accounts of 1982 is not wholly reasonable. Although the trial provisions stipulate that "reasonable adjustments should be made to the overly unreasonable or redundant reserve profit level," it is not easy to carry it out in practical application. 2. Some areas are too lax in controlling the after-tax reserve profits. Although the trial provisions stipulate "not lax and not tight," yet due to various reasons during the experiment, laxity had to prevail. The trial provisions stipulate that enterprises "unable to realize the amount of reserve profits approved by the state--and the shortage is rather big--may have their income tax appropriately reduced within a certain period of time." Some enterprises attempted to take advantage of this word "appropriately." If the principle of "reduction in tax collection" is not controlled well, it will open the way to favoring profits over taxes.

In order to go a step further in perfecting the distribution relationship between the enterprise and the state, we must truly accomplish the goal of "not tight and not lax" and should not vaguely protect the "interests already gained." At the same time we must guarantee that the state will receive the biggest share of the profit based on the original figure or of the newly added profits. The income for the state should be approximately 85 percent of the total profits realized by the enterprise.

(5) The repayment of loans before tax payment must be changed. The reasons are:

1. Although there is the stipulation that the loans are to be repaid from the newly added profits, yet the bounds of the newly added profits are vague, and their amount is difficult to determine. There is possible encroachment on the state's financial income. 2. It is not favorable to strengthening the economic responsibilities of banks and enterprises. Some items do not have pre-loan investigation and research and are very low in economic benefits. Under the circumstance of an inability to distinguish the original from the newly added profits, the burden is finally placed on the state's finances while the bank and the enterprise actually do not carry any. 3. It is not favorable to the control of the scope of fixed capital investment. In recent



years, the self-funded and the bank loan investments continue to inflate, and there must be a definite linkage with the stipulation of loan repayment before tax payment. 4. It is not favorable to the state budgetary balance of the current year. Permission to repay loans before paying taxes is actually permission to distribute prematurely the fund which should have been financial income, affecting directly the state budgetary balance of the current year. It is therefore suggested that in the future the banks should decline the special loan applications from enterprises unless the latter have available in their own funds amounts of more than 30 percent of the money to be used in the loan items. For the sake of having the enterprise possess the ability to repay loans, we should conscientiously consider the enterprise's source of funds for loan repayment. We should form specialized units such as the special loan office to be formed by the bank, the finance section, the planning commission and the audit section and to bear the responsibilities of examining special loans and their practicability together with matters relating to repayment, taking care of both loan issuances and repayments at the same time. If the economic benefits are poor for the loan item, relevant components and units which cannot repay the loan in time should bear the appropriate responsibilities, and no fraud or deception should be tolerated to undermine the state's financial income.

(6) The reform in the taxation system must be done in a complete set with the reform in other economic systems. The conversion of profit delivery into tax payments is the deepening of overall state reform within the territory of distribution which cannot neglect the various areas of economic territory. Therefore, special attention should be paid to the problem of having it in complete sets during the reform. 1. We must appropriately adjust the unreasonable commodity price parity relationship and reform the industrial and commercial taxation system, especially the tax rates of high-priced commodities yielding more profits and low-priced commodities yielding little profit, and reasonable reduction or increase should be made. 2. We must reform the financial system of enterprises, including an overall reform of capital utilization without compensation, the unreasonable portion in cost management and the after-tax formation and utilization of special funds. 3. Planning, materials and wages must also be appropriately reformed in order to detach enterprises from various levels of government authorities in economic benefits, to reform the distribution of economic benefits along the line of command and to conquer the malady of making no distinction between government and enterprise. 4. The problems which were exposed during tax reform must be truthfully solved. For example, the financial burden of taking care of enterprise retirees is a universally acute question. The general rule is that the burden is heavy when the enterprise is labor-intensive and old, otherwise it is not. The fund for retirees, if listed as an extra-business expenditure, will reduce the total amount of profits, and in this way, the fruits of management cannot be correctly reflected. For the sake of avoiding an extraordinarily heavy or light burden on enterprise retirees, there is a big need to establish a social labor insurance fund. 5. Financial income should be divided in accordance with tax categories and the financial management system should be reformed. With the deepening of tax reform and the establishment of new tax categories and the clear separation of central taxes and local taxes, the financial management system also needs to be perfected.

The current financial system of dividing the income along the line of command in enterprises should be changed into a financial system by levels based on the division of tax categories, for example, the classification of the product tax, business tax and value appreciation tax as a central financial income; the agricultural tax, local tax and city construction tax as local financial income and as an income tax; and the land use tax and fixed asset tax as income to be shared by the central and the localities on a proportion to be decided in accordance with the financial situation in the localities.

### III

Comrade Zhao Ziyang has pointed out that the conversion of profit delivery into tax payments may possibly become a key in the reform of the urban economic system, which will play an important role in our country's economic life. I sum up the conversion as having the following phases:

First, the conversion of profit delivery into tax payments will be beneficial to speeding up the fundamental reform in the enterprise's financial system. After the thorough conversion of profit delivery into tax payments, profit delivery will be eliminated, and the coexistence of both tax and profit will be replaced by tax payments only. It breaks the enterprise net income distribution system formed by tax payments, profit delivery and enterprise reserve profits. It introduces changes in the transfer of financial capacity, financial authority adjustment and economic responsibilities, rendering the enterprises able to employ to the maximum their authority in production management and in financial matters and to carry out thoroughly the principle of material benefits. In the future, the enterprise, in its capacity as the relatively independent commodity producer, carries out production management activities, uses the income from selling commodities to make up for the production expenses and pays various taxes in accordance with the stipulations of tax laws. All the after-tax profits are to be fully handled by the enterprise at its discretion; it may establish the trial production of the new products fund, production development fund, reserve fund, employees welfare fund and bonus fund; and even the money needed in the future adjustment of employees' salaries may be partially linked with the after-tax profits. On the other hand, the state will not appropriate any more basic construction capital, circulating funds and funds for tapping enterprises' potential and for their technical transformation; no financial subsidy will be given to enterprises for losses due to poor management, so that a financial system by which the "state collects tax, and the enterprise bears its own gain or loss" will be truly established.

Second, a thorough conversion of profit delivery into tax payments is beneficial to going a step further in strengthening the enterprise economic responsibility system. After the thorough conversion of profit delivery into tax payments, the enterprise bears its own gains or losses after having paid the taxes, and its relatively independent commodity producer status in financial capacity and financial authority is insured; this will be beneficial to strengthening the system of economic responsibility. Since the distribution relationship between the state and the enterprise is settled via tax laws, they also guarantee that the enterprise has its legitimate source of

income, making the enterprise an economic entity that truly possesses the authority to make its own decisions. In this way, the enterprise economic responsibility system is strengthened. At the same time, only after discharging its duty of paying the taxes and making the contribution to the state, will an enterprise achieve its own economic benefits. In this way there are both pressure and a motivating force to impel the enterprises to take the initiative in perfecting their internal responsibilities and to seek survival and development from production increases, economizing, reduction of expenses and the digging up of potential. The enterprise's bearing of its own gains and losses after tax payments will also certainly make heavier the economic responsibilities of the enterprise and strengthen the ownership mentality of the employees.

Third, a thorough conversion of profit delivery into tax payments will benefit the bringing into play of the supervisory function of taxation. After the thorough conversion of profit delivery into tax payments, taxation becomes the main form of the state's participation in the distribution of enterprise income, and at the same time, taxation is made an important supervisory force of the state that extends to the enterprises. The supervisory nature of taxation is supervision by the authority of the state, which, based on bringing into play the functions of tax laws stipulated by state authorities, therefore gains legitimate supervisory power. When a taxpayer undertakes a taxable act, he must pay a tax according to the regulations and must also accept supervision within the limits of the tax laws, irrespective of his form of possession system, if the management orientation is permanent or temporary and if the location is in a rural or an urban area. At the same time, for the sake of benefiting supervision, taxation may be made to provide an informational function, in order to find out if the enterprise organizes its income and expenditures in accordance with the party's guidance and policy, if it practices economizing, if its financial expenditures are within or outside the limits of its cost and if it provides timely and full financial income to the state.

Taxation supervision and taxation distribution are interrelated and reciprocal. Generally, taxation supervision is tied to taxation distribution. Taxation possesses a coercive nature in insuring the state's financial income, because it has the supervisory power based on tax laws and the tax system. This is a coercive power related to the power of the state. Even though a socialist tax is based on tax payment conscientiousness, its supervision still has positive meanings. Taxation policy, tax laws and regulations and the taxation system within the limits of time and space have the power of enforcement. After a thorough conversion of profit delivery into tax payments, not only has the range of tax distribution vision been widened, but the scope of tax supervision has also greatly gone beyond that of industrial and commercial taxation. The object of industrial and commercial taxation is the sales income and the business income of products, and the object of the income tax is the amount of income (profit) which is directly affected by the amount of the cost. The partial sharing of profits by the use of income tax is the inherent function of the tax category, and also the function of supervising the cost limit and the amount and degree of authenticity of profits. In short, the application of taxation supervision is not consistent with its scope of functions, with the latter often surpassing the former. After the thorough conversion of profit delivery into tax payments, the supervisory functions of taxation must be fully appraised.

## **MINERAL RESOURCES**

### **GEOLOGISTS VERIFY MORE MINERAL RESERVES**

OW081246 Beijing XINHUA in English 1211 GMT 8 Sep 84

["More Mineral Deposits Verified in China--24th of the National Day Focus Series"--XINHUA headline]

[Text] Beijing, 8 Sep (XINHUA)--Chinese geologists have discovered mineral deposits at 629 locations over the past five years, according to the Ministry of Geology and Mineral Resources.

All 150 known minerals have been found, with verified reserves for 136 of them. Most are up to the requirements of the country's modernization program, officials say.

More than 300 oil-bearing sedimentary structures have been found, covering nearly half of China's 9.6 million square kilometers. With the discovery of over 270 oil and gas fields, the country's crude oil output increased to 106 million tons in 1983, up from 120,000 tons in 1949.

The Daqing oilfield in northeast and Dagang and Shengli oilfields in northern China have become the country's major oil producing centers. In cooperation with the United States, Japan and France, oil and gas exploration is underway in the Ordos, Tarim, Junggar and Qaidam basins in north and northwest China.

Along China's 12.-million square kilometer continental shelf, seven oil and gas-bearing depressions have been found, of which six have struck oil

Petro-geologists estimate the country's petroleum reserves to be between 30 and 60 billion tons, with on-shore deposits accounting for two-thirds of that total. The second round of a national oil and gas survey has begun with advanced technologies to help ensure a steady growth of crude oil output.

China's known coal reserves rank second in the world, and coal now accounts for about 70 percent of the country's energy consumption.

Uranium is an important source of energy in China. Verified reserves can in the main satisfy the country's needs.



Geothermal energy has been exploited, with more than 2,400 sites found in the country. China's largest geothermal power station, at Yangbajain on the Tibetan plateau, supplies electricity to Lhasa, capital of the Tibet Autonomous Region.

China's known iron ore deposits have been set at 46.7 billion tons, with reserves distributed through 18 provinces and autonomous regions. Minerals needed for the metallurgical industry, including manganese, magnesite and limestone are also in good supply.

China is one of the few countries in the world which have rich reserves of many non-ferrous metals, including tungsten, tin, mercury, molybdenum, lead, zinc and antimony. Large reserves of gold, silver and rare earth ores have also been found, along with rich deposits of non-metallic minerals including phosphorus, sulphur, salt, mirabilite, alum and barite.

Deposits of asbestos, mica, graphite and marble are scattered widely throughout the country.

CSO: 4020/2

## CONSTRUCTION

### RENMIN RIBAO REPORTS ON BUILDING MATERIALS PRODUCTION

HK101321 Beijing RENMIN RIBAO in Chinese 2 Sep 83 p 1

[Facts and Figures column: "China's Building Materials Industry Has Developed to a Considerable Degree"--compiled on the basis of materials from the State Building Materials Bureau]

[Text] By 1983 China already had more than 50,000 building materials enterprises, comprising 13.2 percent of China's total number of enterprises. The national output of cement had reached 108 million tons, an increase of 65.9 percent compared with 1978. The output of plate glass was 41.67 million standard boxes, an increase of 108 percent over 1978. The output of ceramics for sanitary equipment was 8.06 million pieces, the output of clay bricks was more than 205.5 billion pieces. Before liberation China had almost no non-metallic deposits being exploited, but now they are being developed in a big way. The output of asbestos has reached more than 130,000 tons, and the output of asbestos has reached more than 130,000 tons, and the output of gypsum was 4.49 million tons. The output of graphite was 230,000 tons, the output of talc 980,000 tons, and the output of asbestos products was more than 70,000 tons. New types of building materials and inorganic non-metallic materials, which previously did not exist, have also been developed and become an independent industry.

Great improvements have also been made in the building materials industry. China has large and medium cement plants in all provinces, cities, and autonomous regions except Tibet and Ningxia. Small local cement plants are found throughout most counties.

The average grade of the cement produced in large and medium cement plants in the country has increased to grade 464 in 1983 from grade 394 in [word indistinct]. By 1983 the percentage of cement produced in small plants that has met standards has gone up to 95.88 percent from 73 percent in 1978. More than 60 varieties of cement are being produced. Cement products include pressure tubes, poles for electric wires, sleepers, ships, and so on. Due to its wide range of varieties and area of utilization, this industry ranks among the foremost in the world. From the unitary production of window glass, the plate glass industry has expanded, producing large-sized reinforced glass, sandwich glass, wired glass, electrically heated glass, glass for tanks,

bulletproof glass, and many other products. The variety of ceramics for sanitary equipment has developed from one single type to more than 50 varieties. The variety of glazed tiles has developed from a few types to 300 types. In the past China did not have any new, but now they are being used in light, strong, and multi-functional building materials, multi-story buildings. The new inorganic and non-metallic building materials that were developed during the late 1950's are already being used in delivery vehicles such as China's man-made earth satellite, guided missiles, rockets, and more.

Since the founding of the republic, we have developed 121 large and medium-sized building materials items and more than a thousand small items.

CSO: 4006/1

## CONSTRUCTION

### FOREIGN EXPERTS ASSIST IN NATIONAL CONSTRUCTION

OW251315 Beijing XINHUA Domestic Service in Chinese 0012 GMT 20 Sep 84

[Text] Beijing, 20 Sep (XINHUA)—According to departments concerned, since the founding of new China, over 40,000 foreign experts from over 50 countries in the five continents have come to assist our country. The 3,000 or so foreign experts now in our country are working at some 200 factories, mines, and construction sites; over 160 institutes of higher education; 16 propaganda and publishing departments; and a number of scientific research organs across the nation's 29 provinces, autonomous regions, and municipalities directly under the central government.

China began to seek the assistance of many foreign experts shortly after the founding of the republic, and it continued doing so during the 1960's. Following the shift of the nation's focus of work and the adoption of the policy of opening to the outside world after the crushing of the "gang of four," and particularly since the 3d Plenary Session of the 11th CPC Central Committee, the number of foreign experts invited to work in our country has been increasing every year. From 1979 through 1983, over 15,000 foreign experts came to work in China at the invitation of the Chinese Government. Today, these experts' specializations cover a much wider scope than ever before. In addition to teachers teaching at various institutes of higher education, and editors and translators working in journalistic and publishing departments, there are experts and scholars engaged in scientific research and in various types of engineering, technical, and administrative work. Foreign experts can be found in Xizang and other remote provinces and autonomous regions, not only in the large and medium-sized cities along the coast or in the economically and culturally developed inland areas. Foreign experts have contributed their efforts in over 250 large and medium-sized construction projects completed over the past several years. These projects include the second phase project of the Yanshan petrochemical company, the Tianjin petrochemical fiber plant, the Henan polyamide fabrics plant, the 1.7-meter rolling mill of the Wuhan Steel and Iron Company, the electrolytic project of the Guizhou aluminum plant, the Yantai synthetic leather plant, the Xianyang color video tube plant, and so forth. Thanks to the cooperation of foreign oil companies and foreign seismologists, our country has not only completed a seismological survey of oil resources over an area of 420,000 square kilometers at sea and located more than 400 sites with potential oil reserves, it has also completed prospecting of the sandy hinterlands of the nation's four major basins, Junggar, Qaidam, Tarim and Ordos, and found many rocky and other



oil-bearing structures. Assisted and guided by experts sent from the United Nations, China has set up a number of professional and technical development centers, and has systematically introduced into the country such advanced technology as telemetric and laser sensing technology, ultrafine grain photolithographic technology, and so forth.

With these foreign experts in China, the areas and departments concerned have provided them relatively comfortable working and living conditions. Many foreign experts, through working together with the Chinese people on friendly terms, have brought the friendship of the people of their countries to the Chinese people and have promoted mutual understanding and friendship between their countrymen and the Chinese people.

CSO: 4006/5

## CONSTRUCTION

### CAPITAL CONSTRUCTION BUDGETARY ESTIMATES DISCUSSED

Beijing CAIZHENG YANJIU [FINANCIAL AFFAIRS] in Chinese No 3, 31 May 84 pp 64-69

[Article by Huang Jingkun [7806 2529 1507] of the Qiqihar branch of the People's Construction Bank of China: "A Discussion of the Problems of Overspending and Loss of Control in Budgetary Estimates of Capital Construction"]

[Text] Five of the seven large- and medium-size construction projects handled by the Qiqihar Construction Bank have overspent and altogether have surpassed their budgetary estimates by 386.24 million yuan, or 86.6 percent of the original estimate. This includes the budgetary estimate of the Fula'er Number 2 Construction Bank, which was exceeded by 81 percent; the budget of the Qiqihar Paper Manufacturing Plant, which was surpassed by 84 percent; the Heilongjiang Chemical Plant, which underestimated its budget by 120 percent; the budgetary estimate of the Qiqihar Building Materials Plant, which was exceeded by 52 percent; and the budgetary estimate for the "Fudaha" transmission lines, which was surpassed by 10 percent. It is clear that a large number of units overspend and that the amount of overspending is quite great. Thus, budgetary estimates of capital construction have completely lost control of their investments. In the past few years, China has had a universal and extremely serious problem, and this has given rise to a series of serious consequences. Currently, this problem urgently needs to be solved.

#### I. Important Factors for Exceeding Budgetary Estimates

Currently, an important factor in surpassing budgetary estimates of capital construction is that the original increase of the initial estimate for design is insufficient and that gaps exist. This factor accounts for approximately 50 percent of the budgetary estimates that are exceeded. There are three circumstances under which the original estimate is insufficient. The first is the unintentional gap. Because adjustments are not made when the original design is being calculated, a few expenses which ought to be accounted for are not accounted for or are insufficiently accounted for. For example, the cost differences for construction materials and equipment and a few rational cost increases for planning in the Fula'erji Number 2 Electric Factory and in the Qiqihar Paper Manufacturing Plant totaled 82.31 million yuan. These costs must be entered into the budgetary estimate, but in fact they are not calculated and create gaps in the estimate. The reason for these unintentional gaps is that these projects are listed as being key, the state must

ensure them and, when there is insufficient investment, it will be added. Thus, construction units are not too concerned with the question of whether or not the overall budgetary estimate is sufficient. Another kind is the intentional gap. For example, a certain construction company in 1979 changed from domestic equipment to imported equipment, made a revision to the original budgetary estimate and, after computation by the design unit, put forward a budgetary estimate for an investment of 20.62 million yuan (n.b., this number has not yet been accounted for, and a large gap exists). Yet at the conference for examining increases in the initial design that was supported by the relevant departments, this company feared that the State Planning Commission would not approve anything over 20 million yuan and rigidly reduced its budgetary estimate for investment to 18.94 million yuan and left a gap of 1.68 million yuan. Also belonging to this category are projects of secondary importance or ordinary projects, and some are projects that are competitive. In order to strive for approval for starting a project, they seize upon a false plan requiring little investment and yielding great economic results and cheat their way into the state's plan. Once the project has reached a certain stage, it comes forward all at once or in stages, once or many times, and requires that the state increase its investment. These are what we have come to know as "fishing projects." Currently, "fishing projects" are not seen less often, it is just that the methods are more ingenious. Yet another circumstance under which there are original budgetary estimates that are insufficient is when there are a few design personnel who, in demonstrating their own design plans for the economy, are not at all responsible in figuring out their expenditures, use up a number of necessary construction projects and put forth a design plan that is divorced from reality. For example, a certain design institute for a construction unit designed a factory building with an overhead traveling crane, but it had no moving track.

Second, there is an increase of new projects and new expenses. This factor accounts for approximately 25 percent of budgetary estimates that are exceeded. This is indicated by the absence of an original budgetary estimate and by new increases in construction. There are two types of new increases in construction. One type is the supplemental project and welfare facility that has a direct connection to the ability to form and design. When expanding the initial design, we should, but do not, plan for these projects. We discover them in construction and make the increases, and they can be called necessary increases. Another type of new increase in construction is the seizing of chances to engage in key projects and to push forward supplemental projects and welfare facilities that have no direct relationship or no relationship at all with the ability to form and design, and they can be called inappropriate increases. In reality, both these circumstances occur infrequently.

Third, there are extremely severe losses and waste in capital construction. This factor accounts for approximately 25 percent of the budgetary estimates that are exceeded. Projects with the "three facets" (survey, design and construction) cause the greatest losses and waste. Projects of the "three facets" repeatedly change and have created great waste. In the Fula'erji Number 2 Electric Plant for 6 months in 1983 there were 2,100 design changes. One leader of this factory said, "If we did not have the three facets, at

the very least we could save 10 percent in investment." The extended period of construction also increases costs by a large amount. Construction of the Heilongjiang Chemical Plant took 25 years, and costs for management and upkeep alone exceeded 10 million yuan. The Qiqihar Paper Manufacturing Plant extension project was originally designed to take 5 years when it actually took 9 years, and the increased costs due to the extended period of construction amounted to 10.47 million yuan. Due to the will of senior officials, due to the unscientific handling of matters and due to blind direction and imperfect management, serious losses and waste have been created such as materials and equipment being discarded, lost or consumed too much; work being held up due to poor organization; and things being transported two and three times. From every direction hands are stretched out for help from key construction. Indiscriminate apportioning, fleecing and other maladies have greatly increased the cost of projects. Irrational competition for work has also caused some waste.

Overestimating the budget for capital construction is a mass reflection of the many problems inherent in capital construction. There are many units that overestimate and this explains why the problem is universal. The magnitude of the overestimating explains why the problem is serious. The problem with capital construction is both universal and serious, just like a gigantic flood. No matter how strong the sluice gate is, it will be burst open. Budgetary estimates for capital construction have been overestimated in this manner. Thus, we must solve the problem of overestimating budgets and must study and solve a few problems inherent in capital construction.

## II. Reasons for Loss of Control of Budgetary Estimates for Capital Construction

Design determines the technical problems of the design targets, while the budgetary estimate, which determines the economic problems of design targets, is the document that delimits all costs of a construction project. Budgetary estimates that have been approved for initial design have important organizing and controlling effects on capital construction. The estimate is the state's basis for controlling the scale of capital construction, drawing up an investment plan for fixed assets, signing contracts, allocating and loaning, controlling the total cost and checking the economic rationality of the design. Yet currently, the budgetary estimate does not have any of these roles, and it only plays the role of increasing expenses, and construction units have the role of asking for investments from the state. A few construction units do not earnestly carry out budgetary estimates. Once the state approves construction, the budgetary estimate is cast aside, and the construction units do as they please. They freely increase projects and freely raise standards. Responsibility is not assumed no matter what the budgetary estimate.

Responsible departments under ordinary circumstances are capable of paying attention to controlling budgetary estimates. However, when investments are not balanced, projects are not slashed and design capability is not reduced, investment is rigidly controlled and gaps in budgetary estimates are intentionally or unintentionally created. There are also certain responsible



departments that disregard the entire situation. They have the point of view of the entire situation and jointly engage in "fishing projects" with construction units. Thus, when examining budgetary estimates, we should set an ambush for those projects that intentionally leave gaps, first "mounting" and then "whipping the horse."

Budgetary estimates for expanding the initial design of capital construction projects are the basis for drawing up an investment plan for fixed assets. However, due to incorrect budgetary estimates, when planning departments balance investments and arrange the plan, the budgetary estimate for expanding the original design loses its reliability and the planning department loses control of the investment plan for capital construction.

Budgetary estimates for capital construction payments established by financial departments and banks are compiled according to approved investment plans for fixed assets. Due to incorrect budgetary estimates of construction projects, the investment plan for capital construction is continually exceeded and budgetary estimates of capital construction payments are also exceeded. Thus, the scale of capital construction is great and the cost of projects is high.

### III. Serious Consequences of Losing Control of Budgetary Estimates of Capital Construction

Losing control of budgetary estimates of capital construction definitely affects the planned economy. The planned economy requires that all production units in society formulate a pricing plan based on the socially necessary labor time to produce the product, so that a comprehensive balance can be carried out based on the law of planned and proportionate development and so that the quantity of each type of product can be correctly determined. Capital construction is a type of special materials production activity. Capital construction produces fixed assets for each department and administrative unit in the national economy. Since it also produces material products, capital construction projects must draw up a pricing plan for capital construction products. Yet capital construction products are different from ordinary industrial products. They possess individuality. The time, place and quantity of production are different, there are great gaps in necessary costs and unified planned prices cannot be set by the state; rather, methods are adopted according to the budgetary estimate and budgets are drawn up by the construction project, and they determine their pricing plan. This way they can carry out a comprehensive balance and correctly determine a rational proportionate relationship for development between each sector of the national economy. Yet currently, budgetary estimates for capital construction are inaccurate. In implementation, estimates are set at will, and after the project is completed, then it is reimbursed for what it spends. Planned pricing then loses its significance. Thus, any basis is lost for carrying out a comprehensive balance and for determining proportionate development. This causes the scale of capital construction to be difficult to control and the superiorities of the socialist planned economy do not get full play.

Loss of control of budgetary estimates for capital construction also affects the balance between revenues and expenditures. Loss of control of budgetary estimates for capital construction and continual overspending of investments for construction projects will force an increase in expenditures and this increases the factor of unbalanced revenues and expenditures. The more there is overspending of investments for construction projects, the larger is the factor of unbalanced revenues and expenditures. In order to cause revenues and expenditures to be established on a dependable basis, we must start to control each construction project. We can then ensure both the implementation of a budget for capital construction expenditures and balanced revenues and expenditures.

Loss of control of budgetary estimates for capital construction can create a large amount of construction that is cut off half way through. Many projects, because they surpass their budgetary estimates, are short of funds in the period after construction. They cannot make payments for incoming materials and equipment, they are overstocked and behind in their payments for the project, work stops while they wait for materials and the project has to stop, which creates projects that are cut off half-way through. Investments of the Heilongjiang Chemical Plant rose and rose, and this created a great burden on the finances of the province. Due to scarce finances, the project proceeded when there was money and stopped when there was none; it was stop and go, go and stop. The project was discontinued many times. Construction commenced in 1958 and after 25 years, in 1983, work was completed and the plant went into production. It is the infamous "bearded project."

Loss of control of budgetary estimates of capital construction can also create great waste. Budgetary estimates for expanding initial designs are the sluice gates for expenditures for construction projects. Because budgetary estimates of capital construction are already out of control, construction units can arbitrarily increase projects, raise standards and have chaotic management and serious waste. Investment for production capability for units of each sector of the national economy increases yearly and the economic results of investments by the units gradually decrease. Although there is a definite objective reason, all types of materials and equipment rise in price, but we cannot deny the fact that there is extremely serious waste in capital construction. Therefore, it is the way it is because the sluice gates controlling the budgetary estimates of capital construction expenditures do not work, and many unreasonable factors have passed through. Thus, the construction funds which the Chinese people have taken great pains to accumulate have been expended at no cost.

#### IV. Suggestions for Solving the Problem of Exceeding and Losing Control of Budgetary Estimates

The loss of control of budgetary estimates for capital construction has already seriously harmed the planned economy and the state's balance of revenues and expenditures, has created great waste, directly affected the pace of the "four modernizations" and is at the point where it must be solved. Thus, we urgently need relevant departments to make concerted efforts to solve this problem.

First, we must carry out systematic reform and construction. We must further reform the procedure and system for drawing up, inspecting and executing budgetary estimates for capital construction. In reform, we must pay particular attention to scientifically solving the problems of responsibility in every respect. The main reason that our past system of editing budgetary estimates and budgets failed is that we did not solve the problems of responsibility. The people editing did not have responsibility, nor did the people examining and the people implementing have responsibility. In the end, the state completely assumed responsibility and made full reimbursements. This type of system for editing, inspecting and implementing budgetary estimates and budgets has no use. In the future we must solve this problem in systematic construction and cause the state's budgetary estimates and budgets to be drawn up, examined and implemented. We must finally check the expenditures and finally have people assume responsibility. In systematic construction, we must make full use of administrative economic and legal procedures, organically combine these procedures and have rewards and punishments.

Second, we must arouse the enthusiasm of the design units. In the past, design units were not responsible for, nor did they care about, setting costs. The main reason for this problem is that when we investigate the design plan, we lack a comprehensive inspection and evaluation and there is no competition for design. In the future we must comprehensively inspect and evaluate. Whether or not the design plan is used depends on whether or not it is technologically advanced and of sturdy and durable quality. We must also determine whether or not it conforms economically to the policy of spending less money and doing more business. Design units must develop competitiveness and allow bids to be entered and, after many plans are compared, the best should be selected and used. This way we can mobilize the enthusiasm of the design personnel and cause all design personnel to strive to raise the level of design and to design a plan for the state that is technologically advanced and economically rational. If we are able to mobilize the concern of design personnel for the economy, every year we can save a few billion yuan in construction funds for the state. These funds can also build quite a few new projects and accelerate the pace of the four modernizations.

Third, we must allow construction units to assume responsibility. In the past, construction units did not assume any economic or technological responsibility for the building of construction projects. Any problems that arose were handled by the state. This way, it was impossible to use investments effectively. In the future we must systematically make clear the responsibilities of construction units. Construction units must assume full responsibility in determining the cost of expanding the initial design plan and in determining the savings in and the overspending of budgetary estimates. Construction units must give the necessary rewards and penalties for the responsibility system for budgetary estimates that are implemented by the state. Construction units in guaranteeing projects must gradually carry out a system of inviting bids.

Construction projects that overspend their budgetary estimates are usually unable to revise and supplement the budget. If they must revise and supplement, they must make clear the reasons for overspending, spell out the



responsibilities and strictly handle the matter. If the overspending of the budgetary estimate actually needs to be revised, after being approved by the authorized department, revisions can be carried out and a new report made.

In order to enable construction enterprises to assume responsibility, before construction starts, each construction project must choose the best head engineer and head accountant. The engineer assumes full technical responsibility and the accountant is completely responsible with regard to economics. These two responsible people must start when the construction plan is selected, be involved during the period before, during and after construction and be completely responsible for the return on investment until the very end. The accountant must assume responsibility both for construction costs and for production after operation has commenced. In order to enable the head accountant and engineer to be responsible, the project must maintain relative stability during the construction period and must also provide the necessary managing authority and rewards and punishments.

Fourth, we must perfect the quotas and targets of budgetary estimates. Currently, the goals and targets of budgetary estimates are not complete, they are of low quality, they are divorced from reality and they directly affect the quality of budgetary estimates. In order to implement budgetary estimates, we first must calculate and revise the current quotas and targets of budgetary estimates. We must pay particular attention to the feasibility of the goals and targets after they are revised, and to the fullest extent possible we must channel all reasonable factors. For instance, the factor of the rising costs of materials and equipment can be calculated as a certain coefficient that adds directly to the quota for the expense of materials and equipment. This causes the budgetary estimate to be closer to reality. At the same time, we must solve the problem of not placing ceilings on quotas in budgetary estimates. Currently, the phenomenon of many quotas of budgetary estimates not being capped exists. For example, there are different quotas for similar projects using different construction machinery and methods. In actuality, prices are set according to reality. Building and installation enterprises do as they please, and construction units pay for whatever building and installation enterprises do. In order to ensure advanced quotas, we must place ceilings on these quotas and strengthen the management of the quotas of budgetary estimates. Quotas of budgetary estimates must use budgetary quotas as a base. Quotas of budgetary estimates are worked out from budgetary quotas. When budgetary quotas are readjusted, quotas of budgetary estimates must be readjusted correspondingly, and the two must be identical from beginning to end.

Thus, under the guidance of correct ideology, we are able to work out feasible budgetary estimates of capital construction.

Fifth, relevant departments must uphold the system of working out, checking and implementing budgetary estimates for capital construction. Planning departments must maintain the channeling by stages and groups of approved budgetary estimates into the annual construction plan. Any budgetary estimate that has not yet been approved and that even if approved, exceeds the



estimate by a portion cannot be channeled into the official plan. Financial and banking departments must establish expenditures for budgetary estimates based on approved budgetary estimates and annual capital construction plans and carry out allocations and loans.

When the responsible departments examine budgetary estimates, they must examine advanced budgetary estimates of construction and whether or not each technical and economic target has reached the average advanced level actually achieved by the same system, industry and locality. They must also examine its feasibility; it should only be approved if it is advanced and feasible, otherwise it should not be approved.

#### V. Construction Bank Must Turn from Examining Budgets to Emphasizing Examination of Budgetary Estimates for Construction

In the past few years, the Construction Bank has been successful in examining budgetary estimates for working drawings and has had a definite role in reducing costs, investments and expenditures. However, a few tactical and strategic problems exist with regard to construction projects. The problem with budgetary estimates of working drawings is tactical; the problem with budgetary estimates for expanding initial designs is strategic. Tactical problems are of a partial nature; any problems only involve a fraction. A strategic problem is comprehensive; if there is a problem, it covers a broad scope and the losses are great. For example, checking the budgetary estimate for working drawings of a construction project costing more than 100 million yuan, after irrational factors are offset and checked, at the most could reduce costs by 2 or 3 million yuan (normally 4 to 5 percent is reduced; 2 to 3 percent is increased; and after increases and decreases are offset, 2 to 3 percent is reduced). If the planning for expanding the initial design is irrational, it is extremely easy to create a loss of a few million yuan.

In the past, in checking the budgetary estimates of working drawings, the Construction Bank concentrated on the little ones and let go of the big ones. In the future, we must change this, seize the big ones and have the strength not to let the little ones slip by. If their strength is insufficient, the Construction Bank can be responsible for a small portion. After the budgetary estimates of working drawings have been completely handed over to design units to be drawn up, the Construction Bank does not have the necessary strength to check the budgetary estimate of the working drawings. In that case, they should only check the drawing up of a basis and total cost. Then they can use their strength to check budgetary estimates of capital construction. The Construction Bank in checking budgetary estimates must place emphasis on working out a basis, on whether or not the arrangement of individual projects is rational, whether the cost is too high or low, whether the expenses are reasonable and whether or not each cost has been sufficiently set. The Construction Bank should check the budgetary estimates during the early period when the responsible departments are checking the expansion of the initial design. In the process of checking budgetary estimates, they must clearly stipulate that the budgetary estimates for all construction projects, after being checked by and receiving written comments from the

Construction Bank, must then be submitted to the relevant departments for examination and approval.

Budgetary estimates of capital construction must become the basis for carrying out economic and legal procedures in capital construction.

12437

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## CONSTRUCTION

### DISCUSSION ON SCALE OF CONSTRUCTION

HK021330 Beijing RENMIN RIBAO in Chinese 17 Sep 84 p 5

[Article by Liu Lixin [0491 4409 2946], Tian Chunsheng [3944 2797 3932], and Liu Huiyong [0491 1979 0516]: "Annual Scale of Construction and General Scale of Projects Under Construction"]

[Text] Growth of the Annual Scale of Construction Is Characterized by Fluctuation

Generally speaking, the scale of construction of the state has two meanings: 1) It means the annual scale of construction, namely, the total amount of investment in fixed assets that the state has actually made in a year. This reflects the total amount of labor, material, and financial resources that the state has used up in the year in the reproduction of fixed assets. 2) It means the general scale of projects under construction, namely, the total amount of investment needed to complete all the construction projects that are begun in the year. The phenomenon that the annual scale of construction exceeds the capacity of the state in a year is shown in the excessive annual scale of construction; while the phenomenon that the general scale of projects under construction exceeds the capacity of the state in a period is shown in the excessive extension of actual construction of the state. An excessively large number of construction projects is the major sign of the excessive extension of construction, which has a much more far-reaching impact on our national economy than the excessive annual scale of construction.

Under socialist conditions, generally, the annual scale of construction of the state grows year by year. On the one hand, as the national economy develops and the national income grows, the amount that the state allocates from the national income to investment in fixed assets will increase year by year. On the other hand, as the amount of fixed assets employed increases and the depreciation rate rises, the annual transfer to the depreciation fund and the corresponding amount of investment in fixed assets will also necessarily increase year by year. The question is whether the annual scale of construction has a trend of steady increase or a trend of fluctuating increase?

Judging by the more than 30 years practice in our country, there has been a trend of fluctuating increase in the annual scale of construction. There have been objective as well as subjective causes for the fluctuation in the increase in annual scale of construction. Under the influence of the "leftist" thoughts in

the past, we often arranged too large an annual scale of construction, which exceeded the increase of the financial and material resources of the state and thus gave rise to a passive situation for our national economy. However, even if there are no mistakes in our work, it is still inevitable for the annual scale of construction to fluctuate.

When there are no mistakes in people's work, the annual scale of construction is closely related to the national economic situation and the amount of national income. Under a situation whereby there is a relatively great increase in national income, except for a part of the income which we should use in improving our people's livelihood and expanding consumption funds, most of the income can be used in increasing the investment in fixed assets. Under a situation whereby there is a small growth rate in national income, the speed in improving the people's livelihood should be reduced, but the necessary increase in consumption funds must first of all be ensured. The small fluctuation in the increase of consumption funds will inevitably give rise to a great fluctuation in the increase of accumulation funds.

This kind of fairly great elasticity in the fluctuation of accumulation funds is caused by the small elasticity in the fluctuation of consumption funds. Some comrades often use the fact of the rate of increase in the annual scale of construction exceeding the rate of increase in national income to prove that the annual scale of construction is excessively large. In fact, this is not a correct view. When the rate of increase in our national income is relatively great, as it is not necessary for consumption funds to increase in the same proportion, it is entirely possible for the rate of increase in accumulation funds to exceed that of national income.

In a situation whereby our rate of increase in national income still cannot be free from the impact of the results of our agriculture harvests, the fluctuation in the rate of increase in annual national income will inevitably give rise to the fluctuation in the rate of increase in our annual scale of construction.

#### The Increase in the General Scale of Projects Under Construction Should Be Relatively Stable

Under a situation whereby it is impossible for the rate of increase in our national income to avoid fluctuations, in order to ensure the steady increase in our people's living standard, we must allow the amount of accumulation and the annual scale of construction to fluctuate to a greater degree. Should the general scale of projects under construction, then, fluctuate to the same degree as that of the fluctuation in the annual scale of construction? The answer to this question is negative.

The general scale of projects under construction refers to the actual scale of construction projects undertaken by the state. As the periods of the construction projects are generally relatively long, these projects cannot be entirely completed within 1 year and have to be completed over years of investment. Over a period of several years, the rate of increase in our national income varies. In some years, the increase rate is perhaps higher than in other years. However, the bad harvests in some years are offset by the bumper harvests in other years. As a



result, over the period as a whole, the rates of increase in national income and in investment in fixed assets are more stable than the fluctuating rates of increase in each year. This shows that the general scale of projects under construction for a certain year should be determined by the capability of the national strength in a certain period of several years and should not be determined by the year concerned. Therefore, the scale should be fixed by referring to the situation in several preceding and following years. In order to conform to the steady increase in our national strength in a certain period, we must maintain a corresponding stability in the rate of increase in the general scale of projects under construction.

From the point of view of the actual process of the development of the scale of construction, when a new project has just begun, it does not bring a great pressure on annual investment; therefore, people are not necessarily conscious of the impact of the expansion of the general scale of projects under production. However, 2 or 3 years later when the peak of investment in the project comes, there will be heavy pressure on investment in the year, an imbalance in funds, and serious difficulty for the continuation of construction of the project. Therefore, we must strictly control the general scale of projects under construction and maintain a steady rate of increase. We should never pursue a fluctuating rate of increase as we do for our annual scale of construction.

Our practice since the founding of the PRC, has proved that a sharp increase in the general scale of projects under construction will inevitably give rise to a sharp decrease several years later. Many projects that we begin in one year will be suspended in the next year. They begin when we have money and are suspended when we have no money. This will lengthen the period of construction of these projects. The great fluctuation in the general scale of projects under construction and the number of construction projects will give rise to many difficulties and a passive situation in arranging the work of surveying, designing, construction, and the provision of equipment in these projects and in making these projects coordinate with one another to form into complete sets.

Comrade Chen Yun pointed out long ago: "We should make a unified arrangement of our capital construction projects and void the practice of blindly increasing the number of these projects and expanding the scale of construction." The scale of construction that Comrade Chen Yun mentioned here means the general scale of projects under construction. At present, it is correct for our country to stress controlling the scale of construction. However, some comrades often focus on controlling the annual scale of construction and neglect controlling the general scale of projects under construction.

#### Combine the Fluctuating Increase in the Annual Scale of Construction With the Stable Increase in the General Scale of Projects Under Construction

The key to maintaining a rational development of the scale of construction is to control the general scale of projects under construction. When the growth rate of our national income rises and the annual investment in construction rises [word indistinct], we should first use the majority of the increased investment to compose the investment in the key construction projects that are making rapid progress and in which we have failed to invest the apportioned funds, in order to promote the early completion, the early operation, and the early earning of income in these projects. Second, we should invest in ordinary projects under

construction which are making rapid progress and in which we have failed to invest sufficient funds. If there are still any funds left, we should use them to invest in some new projects in which most of the funds are invested in equipment and only a small percentage of the funds is invested in construction and installation of the equipment and which require a short period to complete. At present, while grasping key construction projects, we should vigorously strengthen the work of technological transformation in our key projects. Increased investment each year can also be used in the technological transformation of projects resulting in products urgently needed by the state. We can also appropriately increase state reserve funds.

If we arrange a sharp increase in investment in bumper years in this order, in the former two of the above cases we will not in any way expand the general scale of projects under construction because we have not increased new projects. In the latter two cases, although there are some additional new projects, as these projects can be completed very quickly, they will not become heavy burdens for later years. In addition, because of the small percentage of the work of construction and installation, these projects will not aggravate the shortage in the construction labor force and in the supply of building materials. This arrangement will not only avoid a corresponding increase in the general scale of projects under construction, but will also be conducive to decreasing the construction front and shortening the periods of construction, raising the yearly rate of fixed assets that are put into operation, enabling our investment to bring about effects earlier, and shortening the recovery period for the funds invested. This method for arranging the expanded annual investment takes into consideration not only the situation of the year concerned, but also avoids bringing pressure to bear on the investment in successive years, and thus actually considers the situation in successive years. From this we can see that as long as we make rational arrangement and utilization of the increased annual investment in fixed assets, despite a certain degree of fluctuation in the scale of construction in various years, we will avoid the emergence of the suspension of a large number of construction projects and will not face a passive situation of making forced readjustments.

#### Several Issues That We Should Note in Reforming Our Planned Management System

The idea related to the fluctuating increase in our annual scale of construction and the stable increase in our general scale of projects under construction originates from summing up the experience in changes of the scale of the construction in the past 30 and more years. It is also a law governing the change of the scale of construction under socialist conditions. In applying this law to guiding our practice, in the reform that our country is carrying out in the management system of construction plans, we should pay attention to the following aspects of work:

1. Make a correct forecast of the trend of economic development in the coming 5 years and satisfactorily formulate a 5-year plan in light of our foreign trade and our utilization of foreign capital. The number of projects and the amount of investment should be steadily maintained. Our annual construction plan should be arranged year by year in accordance with our long-term plan, and in so doing, we should leave some room for maneuver. Under the situation whereby there is a possible increase in annual investment, we should appropriately add investment

to the construction projects within the scope of the 5-year plan. We should understand that under the precondition of ensuring the necessary financial and material resources, the proper increase in the annual scale of production will contribute to achieving greater economic results and speed. When it is impossible for us to implement the original plan of annual investment, we should strive to maintain the planned scale of construction by means of utilizing foreign capital, increasing imports, and appropriately using our reserves, thus doing our best to avoid a relatively sharp decline in the annual scale of construction.

2. Establish a system of project reserves. We should arrange and fix reserve projects and additional projects for various years in accordance with our long-term plan. When annual investment is allowed to increase, we should increase the investment in the key capital construction projects that we have already started in accordance with the order of projects in reserve, or start some additional key projects of technological transformation or some additional ordinary projects in order to expand the annual scale of construction.

3. Establish a system to control the number of projects that are newly started. In order to strictly control the scale of projects under construction, on the basis of maintaining a rational scale of projects under construction, we should adhere to the principle of starting new projects while old ones are being completed, and to making the scale of the projects started correspond with that of the projects completed. The total scale of the investment in new projects should be only a little larger than that of the total investment in the projects completed or put into operation. The former should never much exceed the latter. We should distribute the construction funds in light of the need to form the projects into full sets, and we should end the practice of distributing investment funds in accordance with the division of departments and areas. This means that our order of distribution is first the nature of the products and then the needs of the departments and areas. Every year the state should issue to the areas and departments an appropriate ceiling for the rate of increase in the scale of projects under construction and thus make sure that new projects are not added until old ones are completed. When this principle is strictly implemented, the construction scale will be appropriate and will not grow out of control.

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## CONSTRUCTION

### RAILWAY CONSTRUCTION RESUMED IN GUANGXI

LD282115 Beijing XINHUA in English 1626 GMT 28 Sep 84

[Text] Nanning, 28 Sep (XINHUA)--Track laying started today on a railway line from Nanning, capital of South China's Guangxi Zhuang Autonomous Region to Fangcheng Harbor on Beibu Bay.

The 173-km railway, which was started in 1978 and stopped the following year because of economic readjustment, will provide a sea outlet not only for Guangxi but also Guizhou and Sichuan provinces, a railway from Anning to Kunming, capital of Yunnan Province, has been planned for the Seventh Five-Year Plan period (1986-1990).

The resumption of construction came in the wake of Beihai City, which includes Fangcheng, being listed as one of the 14 coastal cities to open wider to the outside world. It will be completed in 1986 together with seven berths for 10,000-to-20,000-ton ships in Fangcheng.

Yunnan and Guizhou have two-thirds of the country's phosphorous reserves and rich coal resources. At present, output is limited by poor transport links. The railway will also facilitate the development of the Pingguo aluminum deposit and help promote industrial and agricultural production in southwest China.

CSO: 4020/5



## CONSTRUCTION

### BRIEFS

COOPERATION AWARD IN TOGO--Lome, 26 Sep (XINHUA)--China State Construction Engineering Corporation was awarded a gold mercury international emblem here today for its contribution to international economic cooperation. The Gold Mercury International was set up in 1961 with the aim of promoting international trade exchange and economic cooperation. Chen Mao, economic counsellor of the Chinese Embassy in Togo received the award on behalf of the corporation from the secretary general of the "Gold Mercury International" Lorenzo Maria Gallo. This corporation has helped Togo in building the Togolese people's assembly house in Kara, north of the country. This modern construction covers an area of 87,500 square meters and the floor space of the building is over 23,000 square meters. It has symbolized the Sino-Togolese friendship since its completion in 1982 and played an important role in the political life of the Togolese people. [Text] [LD280948 Beijing XINHUA in English 1306 GMT 27 Sep 84]

CSO: 4020/5

## DOMESTIC TRADE

### MAINTENANCE OF BASIC PRICE STABILITY DISCUSSED

Beijing JIAGE LILUN YU SHIJIAN [THEORY AND PRACTICE OF PRICING] in Chinese  
No 3, 20 May 84 pp 1-4

[Article by Cheng Zhiping [2052 5268 1627]: "Struggle for the Continued Maintenance of Basic Price Stability in the Market"]

[Text] Our country's current economic situation is very good. Last year, 1983, was the first year of our thorough implementation of the programs of the party's 12th National Congress. Inspiring accomplishments have been achieved in all respects. Socialist construction enterprises flourished, and the value of total industrial and agricultural output attained its target 2 years earlier than the date prescribed by our country's Sixth 5-year Plan. Agriculture has conquered severe natural calamities and achieved record-breaking bumper crops. The big increase in the production and the amount of key food staple procurement exceeded the highest level in history. During the 26 years before 1978, the average yearly increase of grain production was more than 10.8 billion catties and that of cotton production was more than 660,000 dan. During the 5 years since the party's Third Plenary Session, the average yearly increase in grain production was more than 26 billion catties and that of cotton was more than 8 million dan. In 1983, the total grain output was more than 50 billion catties over that of a year ago, and that of cotton was more than 10 million dan. The growth range of economic crops such as sugar and tea was considerable. There was also comparatively good development in diversified management and household sideline enterprises. A new thriving picture has appeared in all the rural areas. The situation of industrial production is also very good, and a comparatively speedier increase has happened in both heavy and light industries. In 1983, in the total national output of energy resources and for industrial products such as chemical fertilizer, sulphuric acid, steel, steel products and cement, records have attained the planned requirements for 1985. The long-standing unreasonable proportional relationship of paying attention to heavy industry instead of light industry has evidently been rectified. Market supplies are abundant, and grains, cotton, edible oil and cloth--the basic essentials of the people--are plentiful. The majority of the daily essentials are basically sufficient to meet the ever increasing needs of society. The income of the people in urban and rural areas has comparatively increased, and their purchasing power has been further heightened. The amount of saving deposits in both urban and rural areas has again increased by a big margin on the basis of the already big increase last year.

The basic situation in commodity prices is also good. In 1983, the basic stability of prices in the market continued. For the sake of rearranging the economy well, a planned adjustment in the unreasonable pricing of some commodities was made, and some advancement was made in reforming the pricing system. At the beginning of the year, as a preliminary pricing adjustment in the textile trade, the price of chemical fiber fabrics was reduced, and that of cotton fabrics was increased. The price parity between chemical fiber fabrics and cotton fabrics is comparatively reasonable, the sale of polyester cotton fabrics throughout China saw a big increase over that of the previous year, and the sale of pure cotton fabrics decreased a little, bringing about the reasonable adjustment of textile industry production and enhancing the development of the chemical fiber industry, initially changing the clothing patterns of our people and opening up a favorable condition for supplying cotton fabrics. In this way, urban and rural consumers receive the material benefits, and the state's income from taxation is also increased. The problem of industry announcing good news, commerce announcing bad news, warehouses overstocking and false financial income being reported has been solved, and in this way the social and economic benefits are heightened. Regarding the price of small commodities of manufactured goods for daily use, 350 categories were announced to be priced by negotiation between industrial and commercial enterprises; with the 160 categories relaxed in 1982, there is a total of 510 categories. After price relaxation, production went up, design and color varieties increased and some prices went up while others went down, but on the whole they remained basically stable; the result was rather good. Take, for example, the Second Light Industry Bureau of Chengdu City, at which 914 categories of small commodities had their prices adjusted from January to September of last year, including 164 increases or 18 percent involving 61,300 yuan and 750 decreases or 82 percent involving 679,200 yuan. By offsetting the increases with the decreases, the net decrease was 617,900 yuan and the average price decrease was 3 percent.

In 1983, the undesirable trend of indiscriminate price increases in the means of production had once appeared. Some units were panicky in purchasing the agricultural by-products needed for export and were short in domestic distribution. This has undermined state planning, damaged resources, harassed the market and also brought along increases in negotiated prices and country fair prices, thus hurting everyone. The State Council and the Central Discipline Commission have therefore promulgated the emergency announcement of resolutely curbing the indiscriminate price increases in the means of production. The State Council also transmitted the reports of the State Commodity Price Bureau and other units on reinforcing the control of the market prices of scarce agricultural products. Related units also adopted timely measures in carrying out price examinations and rearranging related prices and initially investigated and handled a batch of discipline violation cases, and by doing so, basically reversed the above situation.

Big steps were also taken in the work of price formation construction. In 1983, experience exchange conferences on pricing work were held one after another throughout China and in all provinces, municipalities and autonomous regions. The conferences have summed up and exchanged many good experiences and have commended a number of advanced groups and individuals, having

advanced a step further in inspiring the positive attitude of a vast number of personnel in pricing.

This year, following the further thorough implementation of the party's rural economic policies and the increased perfection of the output-related contract responsibility system, the peasants' positive attitude will be brought into better play, and commodity production will continue to develop well. Industrial production will sustain a steady increase, enterprise patterns and product patterns will be reasonably adjusted further and the domestic proportional relationship will continue to develop in the direction of coordination. The work of increasing economic benefits in the areas of production and circulation will produce evident results. An even better situation in the whole national economy will appear. This is the most fundamental favorable factor for doing a good job in commodity pricing.

This year, 1984, is the 35th year after the founding of the People's Republic. The maintenance of basic price stability has a very important political implication. This year, price stability should be given the first priority to be followed by price adjustment, adjustment should be subordinate to stability. The adequate adjustment of the price of a very small number of commodities should be made on the premise of maintaining the basic stability of commodity prices. Maintaining the basic stability of commodity prices is the common task of all the agencies of the national economy. We must advance a step further in improving the comprehensive balance of the macroscopic economy and realize the basic balance of finance, credit and materials. Industrial and commercial enterprises must uncover internal potential, lower their production costs, reduce their circulation expenses, heighten their economic benefits, adjust their production patterns, increase the production of marketable commodities, dredge the channels of circulation and, using various means, increase the supply of commodities and recall currency from the market. In the pricing of commodities, attention should be paid to grasping the following:

#### I. Energetically Stabilize the Price of Non-staple Foods

In recent years, the commodity prices most influenced by the urban public is mainly the price increase of non-staple foods. Therefore, stabilizing the price of non-staple foods is one of the key points in stabilizing commodity prices in 1984. All the efforts should be devoted to stabilizing the price of the major non-staple foods. This is not only an important economic task but also an important political task relating to stability and unity and calming the people's mood.

The key point in stabilizing the price of non-staple foods lies in the stabilization of the selling price of vegetables and of rationed pork, beef, lamb, fowls, eggs, sea fish and milk in big and medium-sized cities and in the industrial and mining areas.

Vegetables in big and medium-sized cities and in the industrial and mining areas should be handled in accordance with the principle of "planning is primary, control the key ones and let the minor ones go." The large quantity of vegetables in season supplied by state-operated business should account



for more than 70 percent of the quantity of vegetable consumption. To stabilize the price of vegetables, the leadership at the municipal level should personally act to ascertain the acreage for planting vegetables, the planned species, the procurement tasks and the subsidies for prices. The acreage for planting vegetables should be arranged according to the principle of a little more yield than consumption, of coordination between near and distant suburbs and of the planned construction of bases for vegetable production. Bengbu City of Anhui Province established its second vegetable base in the distant suburb. This is a very good experience and is worth the promotion efforts of places with favorable environments. The policy of linking up vegetables for food, fertilizer, and fuel purposes should be insisted upon, in order to ensure the completion of the procurement plan. Vegetables of different varieties should have reasonable seasonal and regional differences in prices in order to regularize the supply in the peak and slack seasons and unclog the flow between the urban and rural areas. During the slack season, more bean products should be supplied to the market in order to suppress the rise in vegetable price. Proceeding from the overall situation, big and medium-sized cities and industrial and mining areas should not be stingy in spending money to subsidize vegetable prices, and those having abolished the subsidy should reinstate it. The disbursement of some money in this respect will be beneficial to the development of a stabilized and united situation and is essential and worthwhile. However, an improvement must be made in the way the subsidy is used so that the subsidy will truly benefit the consumers, that there is no waste and that the subsidy will not be diverted to other uses.

For the sake of developing the production of live hogs and stabilizing the price of pork, we should reinforce the leadership in live-hog production and carry out the policy of rationed procurement, positively support and help specialized households and priority households in raising hogs and stabilize the policy of giving awards for more sales; the award in form of grain should not be reduced, and should never be abolished. The negotiated selling and negotiated buying prices of hogs should be controlled. Places selling negotiated-priced pork should be assured a quota supply on parity. Financial subsidies should also be given for pork and for the beef and lamb for national minorities.

Aside from stabilizing the prices of vegetables and pork (and of the beef and lamb for national minorities) on the basis of developing production, efforts should also be devoted to achieve the basic stabilization of other non-staple foods.

## II. Continue To Check Indiscriminate Price Increases in Production Materials

At present, the supply of a few production materials is still short. Some enterprises, in an effort to make up for losses and to increase surpluses, attempt to accomplish this aim by raising commodity prices. Recently, there has been a resurgence of indiscriminate increases in the price of major production materials. Therefore, continuing to check the indiscriminate price increases of production materials is one of the key points in stabilizing commodity prices this year.

To do a good job in reorganizing the price of main production materials such as steel products, pig iron, lumber, cement and coal is a big matter relating to the insistence on a planned economy, the stabilization of commodity prices and the rectification of practices in the party. Therefore, we should continue to carry out strictly the relevant stipulations of the State Council and the Central Discipline Inspection Commission and reiterate that the production materials are for enterprise production under the system of ownership by the whole people, where prices are determined by the state. No matter whether they are produced within or outside the realm of planning or in excess of production targets, their prices as determined by the state should be strictly adhered to and absolutely no unauthorized increase in price should be allowed, likewise with the price increase for raising funds or price increase in the form of joint management for sharing profits or in changing exports to domestic sales.

The self-sale proportion and the price of production materials being produced in excess of the targets by an enterprise should be set in accordance with the stipulations of the state. Those products not having been expressly stipulated should be handled in accordance with the scope of the category and the proportion of self-sale after they have been determined by the state. We should curb the high pricing of scarce production materials by the intellectual and youth stores sponsored by the materiel departments and units of some localities. For the sake of observing discipline in pricing, and checking undesirable practices, we should never freely let go and be indulgent in cases of pricing policy violations. Cases of discipline violations discovered last year and that remain to be handled should be handled strictly.

### III. Strengthen the Control and Supervision of Commodity Pricing

In carrying out the work of commodity pricing, we must resolutely insist on the principle of a planned economy first and market regulation second. Generally speaking, this means controlling the key ones and letting the minor ones go.

Our country is a socialist state which carries out a planned economy. The important commodities relating to the national economy and the people's livelihood should be managed in accordance with the plans, and their prices should be uniformly decided upon by the state. The prices of agricultural and light industrial textile products, which are controlled by the various components of the State Council, should be set in accordance with the list of prices under controls promulgated by the State Council last year. The number of planned-priced commodities for retail sale should be more than 70 percent of the total number of commodities for retail sale. They include grain, cotton, edible oil, cloth and important non-staple foods, durable consumer goods and other means of livelihood. The price of heavy industrial products and transportation should continue to adhere to current stipulations, and the authority of control has not been delegated down for the time being. The retail selling price of commodities controlled by the localities still goes with the stipulations of the State Council, and the authority of approving suggested prices remains at the provincial, municipal and autonomous region levels, not delegated down for the time being. The stipulation that

prices are controlled by authorities of various levels must be strictly adhered to. Attempts to adjust prices by going beyond the authorization should be handled in accordance with the "provisional regulations on price control."

The planned price stipulated by the state should be conscientiously carried out. It is most important that various levels of government, the related components and the vast number of employees in the production and management units be told that the increase of enterprise income should rely on uncovering internal potential and heightening economic benefits, while the improvement of the peasants' livelihood should rely on their acquisition of wealth through diligence and hard work. The maintenance of the basic stability of the commodity price in the market is good for the development of production and for economic prosperity. Components in charge of commodity pricing should combine with the governing components in charge of industry and commerce to reinforce price controls from within by promoting the activities of "estimating quantity and trustworthy pricing" in order to make even more enterprises "trustworthy stores" and "trustworthy factories." After that, we must coordinate with external investigative organs of market commodity pricing supervision and investigation stations and with the investigative net of the masses to carry out jointly the policy of pricing and do a good job in controlling prices. Small commodities should continue to be priced via consultation with industrial and commercial enterprises; within the framework stipulated by policy, flexibility is allowed in price negotiation, country fair trade prices mainly rely on the regulation of supply and demand and adequate guidance may be given in case of need.

We should go a step further in carrying out the policy of pricing in accordance with quality so that high quality means a high price and low quality means a low price. The means of determining price based on the quality of key commodities should be decided by governing components in combination with the State Bureau of Commodity Pricing, to be announced at different times. Various areas and various units may, in accordance with the practical situation, choose a few kinds of commodities having outstanding problems and having the best factors for pricing according to quality, to test-decide in batches their prices according to quality and pricing according to grades. During implementation, we should assign good prices to commodities of good quality and low prices to commodities of low quality and should never permit price increases in disguised form.

#### IV. Attend to Cadre Construction and Strengthen Propaganda Work

Units in charge of pricing should strengthen their own ideological construction and organizational construction. This is the principle for carrying out the basic stability of commodity prices and is an important guarantee for creating a new phase in pricing work. Pricing units of various levels should resolutely carry out the spirit of the 2d Plenary Session of the party's 12th Congress so that during party rectification, party members and cadres can be organized to study conscientiously and well the documents; heighten ideological consciousness; insist on the four basic principles; coordinate with practical work on pricing; conscientiously, consistently and correctly carry out the path, principles and policies of the party since the



3d Plenary Session of the 11th Congress; and then go a step further to maintain political consistency with the Party Central Committee. We should boost the revolutionary spirit, be courageous in reforming and creating and be bold in struggling against price discipline violations. We should reinforce the sense of organizational discipline, conquer bureaucracy, heighten work efficiency and work quality and then go a step further in doing a good job in pricing.

The party's 12th Congress brought out, "under the premise of maintaining the basic stability of commodity prices, the step-by-step means of reforming the pricing system and price control." The task of pricing work has become more complicated and heavier. The reinforcement of study and the training of cadres are urgent matters. Cadres in pricing should reinforce their political and theoretical studies and become familiar with their work and with modern calculation techniques. They should have responsibilities by ranks, employ various means for strengthening study and training and as much as possible cultivate newborn forces and as speedy as possible raise the academic level of cadres in pricing to the level above the technical secondary school in order to build up a contingent of cadres who are both red and expert.

To do a good job in organizational construction work by the pricing investigation agency and by the agricultural product cost investigation teams, the key leadership cadres in pricing units of various levels should grasp the work of recruiting and cultivating new cadres as an important task. In the selection, transfer and recruitment of cadres, we must do it under strict control, insist on the prescribed factors, make over all observations and select and employ the good ones in order to assure their quality. Newly recruited cadres should be given strict professional training and be organized to acquire a general knowledge of political economics and a fundamental knowledge of pricing management before being assigned work after having successfully passed examinations.

We should, under the leadership of the party and the government of various levels, go one step further in strengthening the propaganda work on the policies of pricing. Not a few cadres and masses have commented and criticized the issues relating to pricing; one of the reasons is that we have not done sufficient propaganda work on the principles and the policies on pricing. We should ask the components responsible for theoretical propaganda and the units responsible for information to strengthen their propaganda work on pricing and we should also ask components responsible for pricing to coordinate their work on pricing investigation with their work on pricing propaganda. We should explain to the vast masses why the basic stability on prices should be maintained and also explain the reason why a small number of unreasonable prices should be adjusted; we should clearly point out to them that what we carry out is the principle of a planned economy first and market regulation second and that in pricing commodities, there is the price fixed by the state, the price fixed by the enterprise within the framework of the state's stipulations and also the country fair trade price. Efforts must be exerted to maintain the price of the basic essentials of living. The price of small



commodities and the three categories of agricultural by-products may inevitably increase or fall a little sometimes; as long as the increase or fall is not sharp, it is beneficial to developing production and improving supply. We must clearly explain to the producers that the selling price of a commodity should not be high because too high a price will block the sale and might even bring about damage to production resources. We should also clearly explain to the consumers that the price of a commodity should not be low because too low a price will jeopardize production and render no commodity available for sale, in which case higher-priced substitutes would have to be used, resulting in the expenditure of more money. We must clearly explain to industrial and commercial enterprises that suppressing the price of a commodity by assigning it to a lower grade, increasing the price of a commodity by assigning it to a higher grade, unauthorized price increases and price increases in disguised form are all anti-discipline acts that cannot be tolerated. After all, we all should, under the premise of maintaining the basic stability of commodity prices, support the step-by-step adjustment of prices to a reasonable level, so that the economics of pricing will serve economic development and will render its due contribution to the struggle for the betterment of the financial and economic situation within the next few years and for economic prosperity in the future.

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CSO: 4006/615

## DOMESTIC TRADE

### RESTRUCTURING OF SUPPLY, MARKETING COOPERATIVE SYSTEM .

Harbin HEILONGJIANG RIBAO in Chinese 28 Jun 84 p 1

[Article by Zhu Nong [4281 6593] and Hua Dazhen [5478 1129 4176]: "Provincial Supply and Marketing Cooperatives Hold Meeting To Discuss Drafting a Plan for Reform"]

[Text] The provincial supply and marketing cooperative convened a meeting from 15-21 June with the directors of the supply and marketing cooperatives from the localities, cities and counties. Based on the suggestion report of the provincial supply and marketing cooperative--which was approved and forwarded by the provincial government--concerning the practice of restructuring the system, certain practicable principles have been studied, and the pace of the restructuring of the system will be speeded up.

Limits set upon peasants purchasing stocks should be eliminated, and the proportion of money paid for stocks by peasants to the fund of the supply and marketing cooperative should be raised gradually. Principles advocated during the meeting included the freedom to purchase stocks, to purchase unlimited shares of stocks and to withdraw stocks, liberal withdrawal of money, guaranteed income before taxation and withdrawal of extra dividends after taxation and of by the end of the year. It was also advocated that individual funds be raised to set up facilities for the production, manufacture and circulation of commodities. On the basis of adding capital from stocks, democratic control will be further strengthened, thus enabling peasants to become the owners of the supply and marketing cooperatives.

The limits of management should be widened, and the supply and marketing cooperatives should be gradually turned into comprehensive service centers in rural areas. It is necessary to expand the control over agricultural by-products, and sales have to be enforced. The supply and marketing joint cooperatives in cities and counties should start organizing cooperatives at the primary level and, according to the assortment of goods, should find out about the sales of agricultural by-products demanded in the current year by peasants so as to look for markets through every possible means. It is necessary to expand the control limit of industrial products. Energetic efforts should be made in the development of joint operations in agriculture and commerce via many ways, administrative levels and varieties. It is necessary to expand the realm of services, and various types of service should be developed.

The manufacturing and repair industries should be developed in a planned way, the food and beverage service industry has to render services by calling at houses, the management of the supply and marketing cooperatives should be more flexible and wholesale business should be widely developed.

The operation of the system of job responsibility through contracting should be stimulated. The wholesale enterprise at the county and above levels should continue with "the linkage of profit and award," and there will be no ceiling for money awards. Concerning the supply and marketing department and the retail department of the basic-level cooperatives and the independent section of the retail sales enterprises at the county and above levels, the system of management responsibility should be carried out in a positive way. Methods like large-scale contracting, the sharing of surplus profits or the linkage of remuneration to sales etc. could be practiced. The food and beverages industry, service industry and processing industry, which are based mainly upon labor and service, should be run in a thoroughly liberal way by leasing or contracting via bidding. Some network outlets could be contracted or leased to individuals, and various ways of distribution that cope with the characteristics of the enterprise could be adopted. The system of sharing profits among the labor force should be widely practiced by enterprises and cooperatives at various levels. A portion of the profits after taxation is distributed among the staff and workers as a dividend. The welfare and remuneration of the staff and workers are decided by the enterprises themselves according to the achievements of the management.

The present control system should be reformed, and the supply and marketing joint cooperatives of the cities and counties should be run in economic integration, serving cooperatives at the basic level. In the meeting, it was pointed out that the supply and marketing joint cooperatives at the county and above levels should strengthen the organization of management and the organization of control, elaborating the functions of management, service and control. Various companies belonging to the joint cooperatives of the cities and counties should fully elaborate and organize businesses in buying and selling and the function of serving cooperatives at the basic level. The supply and marketing cooperatives of the cities have to establish commercial centers of various types as quickly as possible.

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CSO: 4006/685

## FOREIGN TRADE AND INVESTMENT

### XINHUA ON GUANGZHOU COMMODITIES EXHIBITION IN HONG KONG

LD161934 Beijing XINHUA in English 1448 GMT 16 Sep 84

[Text] Hong Kong, 16 Sep (XINHUA)--Business transactions for exports surpassed 40 million U.S. dollars during the ten-day Guangzhou export commodities exhibition and economic, technical cooperation meeting which concluded here today.

The exhibition and meeting drew a total of 10,000 visitors.

The over 2,000 exhibits on show included both works of exquisite traditional craftsmanship and products of modern techniques. The customers showed special interest in textiles and manufactured goods of the light industry. Business transactions for these products reached 28.7 million U.S. dollars, covering mainly refrigerators, washing machines, paper, cotton knitwear, garments, ramie and spun silk textiles and leather goods.

Fifteen cooperation agreements were signed by foreign and Hong Kong business people with Guangzhou enterprises. Guangzhou put forward a list of 191 projects inviting cooperation. Included were electronics, light industry, chemical, textile, metallurgical, machine building and urban construction projects. The agreements concluded ranged from the making of artificial agate, production techniques for washing machines, to food packaging production lines.

While the meeting was in session, an economic and trade delegation from Guangzhou's economic and technical cooperation, the Mayor of Guangzhou Ye Xuanping and other officials expounded the open policy and briefed foreign and Hong Kong businessmen on Guangzhou's general conditions for foreign investment.

CSO: 4020/4



## FOREIGN TRADE AND INVESTMENT

### HEILONGJIANG EXPANDS FOREIGN ECONOMIC RELATIONS

OW230307 Beijing XINHUA in English 0246 GMT 23 Sep 84

[Text] Harbin, 23 Sep (XINHUA)--Exports from Heilongjiang were valued at 268.2 million U.S. dollars in the first eight months of this year, up 59 percent over the same period in 1983, according to Hou Jie, vice-governor of China's northernmost province.

The province has established trade ties with over 1,700 firms and businesses in 104 countries and regions since 1981.

Its leading exports include ginseng, deer antlers, edible fungus, royal jelly, soybeans, canned food, sugar, building materials, electrical appliances, fabrics, machines and equipment, pharmaceuticals, and lumber.

By the end of 1983, Heilongjiang concluded agreements on 239 projects of construction, expansion and technological transformation with foreign firms, utilizing foreign funds totalling 152 million U.S. dollars. Spinning frames and looms for linen, creamery equipment and a fiberboard production line have already been imported.

This year the province has imported complete equipment such as warp knitting machines for woolen blankets, bottle-making machines, livestock feed mixing machines, as well as technology for making artificial furs and beer.

CSO: 4020/4

## FOREIGN TRADE AND INVESTMENT

### BRIEFS

**FOREIGN TRADE LAW FIRM ESTABLISHED**--Nanjing, 22 Sep (XINHUA)--A foreign trade law firm was set up here today with the approval of the Chinese Ministry of Justice. Working under the leadership of the Jiangsu Provincial Justice Department, the new law firm offers services including providing legal assistance in negotiations, drafting, signing and examining contracts, documents, and acting for clients in mediation, arbitration and litigation, and engaging in other international business operations. Sixteen lawyers work for the firm. [Text] [OW230114 Beijing XINHUA in English 1830 GMT 22 Sep 84]

**GUANGZHOU INTERNATIONAL TOURISM CONFERENCE OPENS**--Guangzhou, 15 Sep (XINHUA)--A four-day international conference on tourism opened here today, with 120 tourism officials attending. The guests represent about 100 travel agencies from Britain, Japan, the Philippines, Singapore, Thailand, Hong Kong and Macao. Participants will share experience and comments on the development of Guangdong Province's tourist services. Briefings were given at the opening session on policies, resources, facilities and services for tourism in Guangdong Province and its capital, the City of Guangzhou, as well as further development plans. The guests are scheduled to visit tourist hotels in Guangdong and scenic spots around the city. The conference is sponsored by the tourism bureaus of Guangdong Province and Guangzhou City. [Text] [OW152056 Beijing XINHUA in English 1448 GMT 15 Sep 84]

**PORT CITY ATTRACTS FOREIGN INVESTORS**--Hangzhou, 22 Sep (XINHUA)--Ningbo, a port city in Zhejiang Province, signed 71 agreements, contracts and letters of intent with overseas investors from April to August this year. Ningbo is one of the 14 coastal port cities designated to open wider to the world last April. Since then, about 180 business people from 15 countries and regions have come to Ningbo to discuss about 80 projects proposed by the municipal government. The projects include construction of hotels, and imports of equipment and technology for light textiles, electronics and chemical industries. Contracts have been signed on some of the projects. Ningbo also signed 42 contracts on processing business with supplied materials involving 2.4 million U.S. dollars with 22 overseas firms in the first seven months of 1984. [Text] [OW220826 Beijing XINHUA in English 0819 GMT 22 Sep 84]

CSO: 4020/4

## SPECIAL ECONOMIC ZONES

### BRIEFS

**REPRESENTATIVE COMPANY STATIONED IN HONG KONG**--Traveling traders will find it much more convenient to hold business talks with the Shenzhen Special Economic Zone than in the past half-year. They can hold talks in Hong Kong with the Shenye Commerce Company, Ltd, a representative of the Shenzhen Economic Special Zone stationed at Hong Kong. If it is necessary to enter the Shenzhen Special Zone, the Shenye Company can arrange for entry procedures on the same day. The Shenye Company was set up last September; it acts as a representative of the Shenzhen Special Zone stationed at Hong Kong to hold business talks on investments, the setting up of factories etc. with traveling traders in Hong Kong. The company takes a positive role in the organization and participates in various discussions and meetings in order to introduce to the traveling traders the investment environment and policy of the favorable terms offered by the special zone. In the past half-year, the company has held successive talks with traveling traders from the U.S.A., UK, France, Japan, Australia, Singapore, Sweden, etc. and Hong Kong and Macao Prefecture to import a series of joint-venture items. The Shenye Company is entrusted by the concerning department with arranging traveling traders' entry procedures to the Shenzhen Special Zone. Basically, it can be settled on the same day. [Text] [Guangzhou YANGCHENG WANPAO in Chinese 13 Apr 84 p 2] 12726

**SHENZHEN BANK DIVERSIFIES**--Recently, the Shenzhen Branch of the People's Bank of China has boldly reformed its business. In this type of business, it develops toward diversification, and in the area of management, some of the methods are referred to international banks so that the strength and vitality of the capital of Shenzhen City's financial market will be enforced. The plan of reform includes the practice of new methods in various areas: capital control, business types, management, deposit rate, financial and foreign exchange control, etc. These new methods are as follows: the present funds of the various banks in Shenzhen will not be transferred by upper-level banks, and from now on, the deposits absorbed will remain in Shenzhen so that the strength of Shenzhen banks will be enforced; all the insurance income of Shenzhen, with the exception of its business expenditures, will be left in and used as an insurance fund in Shenzhen; the upper-level bank will suitably increase a certain loan balance to its respective bank according to the economic development required in Shenzhen, and the loan index can exceed the amount of the deposit absorbed; the banks of Shenzhen City are allowed to loan at a daily interest rate from domestic or foreign banks in order to make

up for the deficient construction fund in the special zone; under the premise that the total level of the present interest rate on the loan will not be lowered, the rate can comply with the business and markets. [Text] [Guangzhou YANGCHENG WANBAO in Chinese 1 Jun 84 p 2] 12726

SHENZHEN INTERNATIONAL TRUST COMPANY--The head office of the Shenzhen International Trust Investment Company has been set up recently, launching an overall business in international trust investment. The company is a unified economic organization, mainly dealing in international financial business. It has adopted flexible means that are currently used among nations to raise funds so as to handle foreign exchange trust investments, to borrow short-, intermediate- and long-term free foreign exchange from foreign countries and Hong Kong and Macao Prefecture, to issue and act as an agent to issue foreign currency-negotiable securities in foreign countries and Hong Kong and Macao Prefecture, to run international leasing businesses, etc. [Text] [Guangzhou YANGCHENG WANBAO in Chinese 29 Jun 84 p 2] 12726

ZHANPENG COMPANY OF SHENZHEN--The recently established Zhanpeng Economic and Technical Service Company was set up jointly by the Shenzhenshi Metal Material Company and the Shoudu Iron and Steel Company. The company is an enterprise mainly rendering basic construction services to the Shenzhen Special Zone. The Shoudu Iron and Steel Company provides Shenzhen with 12,000 tons of good quality steel annually, and the company plans to set up a welding-rod mill, producing 5,000 tons of welding rods annually. At the same time, the company also carries on various businesses, such as project contracting, technical consulting, processing of imported materials, importing and exporting metallurgical products, etc. [Text] [Guangzhou YANGCHENG WANBAO in Chinese 29 Jun 84 p 2] 12726

CSO: 4006/685



## LABOR AND WAGES

### STATISTICS ON CITY WELFARE, RELIEF WORK VIEWED

OW230110 Beijing XINHUA in English 1643 GMT 22 Sep 84

["Welfare and Relief Work in China's Cities--38th of the National Day Focus Series"--XINHUA headline]

[Text] Beijing, 22 Sep (XINHUA)--China expended more than 4.66 billion yuan (about 1.87 billion U.S. dollars) on urban social welfare and relief work between 1950 and 1983. Of the total 74.3 percent were allocated for welfare services and the rest were earmarked for as relief fund.

The Ministry of Civil Affairs under the State Council and similar departments all over the country are responsible for social welfare and relief work. In all, there have been more than 1,600 welfare factories established in cities to take on 65,000 handicapped people, 190 massage centers staffed by 3,000 blind massagists and 886 welfare centers to look after more than 63,000 childless, elderly people, handicapped, orphans and mental patients.

In addition, 8,500 welfare workshops are run by neighborhood committees and industrial enterprises for the disabled people who can work.

Records show that more than 70 percent of the disabled people in China's cities who can work now have jobs.

There are more than 20 artificial limbs factories in China, producing and fixing artificial limbs for the handicapped.

CSO: 4020/7

TRADE MAY LOSE HONG KONG AS 'ENTREPORT'

OW011033 Taipei CHINA POST in English 27 Sep 84 p 12

[Text] Although the government refuses to recognize the validity of the draft agreement between the British and Peking governments over the future sovereignty of Hong Kong, authorities here are studying counter-measures.

"It is a great disadvantage to lose a battlefield like Hong Kong where the free spirit and system of the Nationalist government confronts the communists," said a political analyst who asked not to be named yesterday.

"It is also impossible for Taiwan to find a replacement for Hong Kong after 1997 because of its peculiar geographical and political status," said the analyst.

Sharing the same traditions, Chinese residents in Hong Kong and people in Taiwan have been keeping very close ties in trade, business and cultural activities since 1949.

Hong Kong is the ROC's fourth largest trading partner, following the United States, Japan and Saudi Arabia. Some businessmen in Taiwan use false companies in the British territory to trade with Red China.

In the first eight months of this year, the ROC exported U.S.\$1.34 billion worth of goods to Hong Kong, while imports from Hong Kong were only U.S. \$225 million.

The issue of trade volume between the ROC and Hong Kong, which constitutes less than five percent of the ROC's foreign trade, is insignificant compared with the British colony's position as an entreport, trade officials said.

According to official statistics, more than one-fifth of Taiwan-made products exported to Southeast Asia, Australia and Africa pass through Hong Kong. Local businessmen fear they may not find another entreport "as good as Hong Kong," a business source said.

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26 Oct 1984